



**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2018**

**KOUGA LOCAL MUNICIPALITY**  
**Annual Financial Statements for the year ended 30 June 2018**

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## **GENERAL INFORMATION**

### **MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2018**

H Hendricks	Executive Mayor
F Campher	Infrastructure and Engineering
B Dhludhlu	Planning, Development and Tourism
B Williams	Finance
F Baxter	Corporate Services
D Benson	Community Services

### **AUDITOR-GENERAL**

69 Frere Road, Vincent, East London, 5247  
Eastern Cape

### **BANKERS**

First National Bank  
Private Bag X5  
Jeffreys Bay, 6330

### **REGISTERED OFFICE**

33 Da Gama Road  
Jeffreys Bay

P O Box 21  
Jeffreys Bay  
6330

Tel: (042) 200 2200  
Fax: (042) 293 4204

Webpage: [www.kouga.gov.za](http://www.kouga.gov.za)  
E-mail: [registry@ec108.org.za](mailto:registry@ec108.org.za)

### **MUNICIPAL MANAGER**

Mr. C. du Plessis

### **CHIEF FINANCIAL OFFICER**

Mr. S Thys

## **GENERAL INFORMATION (continued)**

### **LEGAL FORM**

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

The Objects of Local Government are:

to provide democratic and accountable government for local communities;  
to ensure the provision of services to communities in a sustainable manner;  
to promote social and economic development;  
to promote a safe and healthy environment; and  
to encourage the involvement of communities and community organisations in the matters of local government

The Municipality must strive, within its financial and administrative capacity, to achieve the objects as set out above.

### **JURISDICTION**

Greater Kouga area which includes:

Humansdorp  
St Francis Bay, Cape St Francis, Oyster Bay  
Hankey, Jeffreys Bay, Loerie  
Patensie, Thornhill

## MEMBERS OF THE KOUGA LOCAL MUNICIPALITY

WARD	COUNCILLOR	
1	Mayoni	Z
2	Meleni	T
3	Gertenbach	W
4	Campher	F
5	Coenraad	W
6	Vumazonke	V
7	Februarie	C
8	Vorster	L
9	Jujwana	S
10	Mabukane	A
11	Bornman	H
12	Rheeder	B
13	Peters	M
14	Mandeka	S
15	Hendricks	H
Proportional	Biggs	D
Proportional	Camelio-Benjamin	V
Proportional	Jantjies	R
Proportional	Dayimani	M
Proportional	Louw	F
Proportional	Matroos	C
Proportional	Nkomo	A
Proportional	Nkwalase	P
Proportional	Botha	N
Proportional	Dhludhlu	B
Proportional	Benson	D
Proportional	Jantjes	T
Proportional	Williams	B
Proportional	Baxter	F

### APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, in accordance with Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister for Cooperative Governance and Traditional Affairs' determination in accordance with this Act.



Mr. C du Plessis  
Municipal Manager

31/08/2018

Date

**KOUGA LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018**

		Actual	
	Note	2018 R	2017 Restated R
<b>ASSETS</b>			
<b>Current Assets</b>		<b>202,314,426</b>	<b>174,240,342</b>
Inventories	2	6,666,181	4,952,364
Receivables from Exchange Transactions	3	51,830,360	42,460,112
Receivables from Non-exchange Transactions	4	26,517,164	31,000,620
VAT Receivable	5	22,713,472	11,288,813
Cash and Cash Equivalents	6	94,315,125	84,253,706
Operating Lease Receivables	7	269,124	281,727
Current Portion of Long-term Receivables	8	3,000	3,000
<b>Non-Current Assets</b>		<b>2,266,533,140</b>	<b>2,295,482,446</b>
Property, Plant and Equipment	9	1,982,603,128	2,010,156,227
Intangible Assets	10	301,768	62,224
Investment Property	11	283,612,244	285,199,244
Long-term Receivables	12	16,000	64,751
<b>Total Assets</b>		<b>2,468,847,565</b>	<b>2,469,722,788</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>182,255,664</b>	<b>179,777,118</b>
Consumer Deposits	13	15,240,869	13,567,024
Provisions	14	24,504,611	22,644,269
Payables from Exchange Transactions	15	126,624,642	128,559,171
Unspent Conditional Grants and Receipts	16	6,941,508	6,406,753
Current Portion of Long-term Liabilities	17	8,944,035	8,599,901
<b>Non-Current Liabilities</b>		<b>185,581,329</b>	<b>187,477,007</b>
Long-term Liabilities	17	23,600,396	32,567,197
Employee Benefit Liabilities	18	96,300,999	92,444,000
Non-current Provisions	19	65,679,934	62,465,810
<b>Total Liabilities</b>		<b>367,836,993</b>	<b>367,254,124</b>
<b>Total Assets and Liabilities</b>		<b>2,101,010,573</b>	<b>2,102,468,664</b>
<b>NET ASSETS</b>		<b>2,101,010,573</b>	<b>2,102,468,664</b>
Accumulated Surplus	20	2,101,010,573	2,102,468,664
<b>Total Net Assets</b>		<b>2,101,010,573</b>	<b>2,102,468,664</b>

**KOUGA LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Actual	
		2018	2017
		R	Restated R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>		<b>354,566,499</b>	<b>312,877,219</b>
Property Rates	21	160,671,150	148,074,778
Fines, Penalties and Forfeits	22	34,832,471	10,600,474
Licences and Permits	23	13,546,854	8,381,770
Transfers and Subsidies	24	144,390,088	144,308,831
Interest, Dividends and Rent on Land Earned	28	1,125,936	1,511,366
<b>Revenue from Exchange Transactions</b>		<b>388,474,237</b>	<b>364,311,054</b>
Service Charges	25	363,348,296	335,965,472
Sales of Goods and Rendering of Services	26	8,834,374	6,860,161
Rental from Fixed Assets	27	614,198	1,505,650
Interest, Dividends and Rent on Land Earned	28	14,409,988	14,409,095
Operational Revenue	29	1,267,381	5,570,675
<b>Total Revenue</b>		<b>743,040,736</b>	<b>677,188,273</b>
<b>EXPENDITURE</b>		<b>745,019,039</b>	<b>672,685,052</b>
Employee Related Costs	30	245,776,991	224,583,634
Remuneration of Councillors	31	12,065,883	11,101,213
Depreciation and Amortisation	32	73,526,682	71,047,034
Impairment Losses	33	61,478,776	24,779,495
Interest, Dividends and Rent on Land	34	14,324,358	14,207,786
Bulk Purchases	35	217,588,330	220,618,051
Contracted Services	36	35,492,455	13,823,555
Inventory Consumed	37	20,580,753	46,172,326
Transfers and Subsidies Paid	38	372,340	-
Operating Leases	39	2,725,534	1,333,457
Operational Costs	40	59,495,162	42,960,080
Loss on Disposal of Property, Plant and Equipment	41	1,591,775	2,058,422
<b>Total Expenditure</b>		<b>745,019,039</b>	<b>672,685,052</b>
<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>(1,978,303)</b>	<b>4,503,220</b>
Refer to Budget Statement for explanation of budget variances			

**KOUGA LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018**

	Accumulated Surplus/(Deficit)	Total Net Assets
	R	R
<b>2017</b>		
Balance at 30 June 2016	2,098,485,648	2,098,485,648
Correction of Error (Note 42)	(520,204)	(520,204)
<b>Restated Balance</b>	<b>2,097,965,444</b>	<b>2,097,965,443</b>
Surplus / (Deficit) for the year	4,503,220	4,503,220
<b>Balance at 30 June 2017</b>	<b>2,102,468,665</b>	<b>2,102,468,664</b>
<b>2018</b>		
<b>Restated Balance</b>	<b>2,102,468,665</b>	<b>2,102,468,664</b>
<b>Correction of Error (corrected within PPE)</b>	<b>520,204</b>	<b>520,204</b>
Surplus / (Deficit) for the year	(1,978,303)	(1,978,303)
<b>Balance at 30 June 2018</b>	<b>2,101,010,565</b>	<b>2,101,010,564</b>

Details on the movement of the Funds and Reserves are set out in Note 20.



**KOUGA LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018**

		Actual	
	Note	2018 R	2017 Restated R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>		<b>669,670,001</b>	<b>647,192,851</b>
Property Rates	21	159,940,086	143,654,433
Transfers and Subsidies	24	144,924,843	142,874,058
Service Charges	25	331,659,159	326,948,968
External Interest and Dividends Received	28	8,751,748	7,776,128
Other Receipts	29	24,394,165	25,939,264
VAT Receivable / Payable	5	-	-
<b>Payments</b>		<b>(604,377,795)</b>	<b>(583,089,100)</b>
Employee Related Costs	30	(240,488,766)	(220,790,613)
Remuneration of Councillors	31	(12,065,883)	(11,101,213)
External Interest and Dividends Paid	34	(5,073,469)	(8,337,628)
Suppliers Paid	36	(276,808,142)	(295,616,196)
Other Payments	40	(58,516,877)	(40,336,590)
VAT Receivable / Payable	5	(11,424,658)	(6,906,860)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>65,292,206</b>	<b>64,103,751</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	9	(47,542,831)	(52,124,626)
Proceeds on Disposal of Property, Plant and Equipment	41	885,959	2,166,237
Proceeds on Disposal of Investment Property	11	-	-
Decrease / (Increase) in Long-term Receivables	12	48,751	102,850
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(46,608,121)</b>	<b>(49,855,539)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Borrowings	17	(8,622,667)	(8,567,958)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(8,622,667)</b>	<b>(8,567,958)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>10,061,419</b>	<b>5,680,254</b>
Cash and Cash Equivalents at Beginning of Period		84,253,706	78,573,452
Cash and Cash Equivalents at End of Period	6	94,315,125	84,253,706

**KOUGA LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018**

**RECONCILIATION OF BUDGETED FINANCIAL POSITION WITH THE STATEMENT OF FINANCIAL POSITION:**

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
<b>FINANCIAL POSITION</b>								
<b>Current Assets</b>								
Inventories	4,690,673	-	4,690,673	4,690,673	6,666,181	1,975,508	142.12	142.12
Receivables from Exchange Transactions	55,213,468	-	55,213,468	55,213,468	51,830,360	(3,383,108)	93.87	93.87
Receivables from Non-exchange Transactions	25,677,000	3,225,000	28,902,000	28,902,000	26,517,164	(2,384,836)	91.75	103.27
VAT Receivable	-	-	-	-	22,713,472	22,713,472	0.00	0.00
Cash and Cash Equivalents	60,013,587	(284,135)	59,729,452	59,729,452	94,315,125	34,585,673	157.90	157.16
Operating Lease Receivables	-	-	-	-	269,124	269,124	0.00	0.00
Current Portion of Long-term Receivables	3,007	-	3,007	3,007	3,000	(7)	99.76	99.76
<b>Non-Current Assets</b>								
Property, Plant and Equipment	2,562,531,731	9,754,000	2,572,285,731	2,572,285,731	1,982,603,128	(589,682,603)	77.08	77.37
Intangible Assets	72,520	-	72,520	72,520	301,768	229,248	416.12	416.12
Investment Property	84,431,491	-	84,431,491	84,431,491	283,612,244	199,180,753	335.91	335.91
Long-term Receivables	150,361	-	150,361	150,361	16,000	(134,361)	10.64	10.64
<b>Total Assets</b>	<b>2,792,783,839</b>	<b>12,694,864</b>	<b>2,805,478,703</b>	<b>2,805,478,703</b>	<b>2,468,847,565</b>	<b>(336,631,138)</b>	<b>88.00</b>	<b>88.40</b>
<b>Current Liabilities</b>								
Consumer Deposits	8,855,542	10,217,000	19,072,542	19,072,542	15,240,869	(3,831,673)	79.91	172.11
Provisions	31,021,081	-	31,021,081	31,021,081	24,504,611	(6,516,471)	78.99	78.99
Payables from Exchange Transactions	106,811,363	-	106,811,363	106,811,363	126,624,642	19,813,279	118.55	118.55
Unspent Conditional Grants and Receipts	-	-	-	-	6,941,508	6,941,508	0.00	0.00
Bank Overdraft	-	-	-	-	-	-	0.00	0.00
Current Portion of Long-term Liabilities	6,442,906	-	6,442,906	6,442,906	8,944,035	2,501,129	138.82	138.82
<b>Non-Current Liabilities</b>								
Long-term Liabilities	30,268,531	-	30,268,531	30,268,531	23,600,396	(6,668,135)	77.97	77.97
Employee Benefit Liabilities	-	-	-	-	96,300,999	96,300,999	0.00	0.00
Non-current Provisions	118,670,136	-	118,670,136	118,670,136	65,679,934	(52,990,202)	55.35	55.35
<b>Total Liabilities</b>	<b>302,069,559</b>	<b>10,217,000</b>	<b>312,286,559</b>	<b>312,286,559</b>	<b>367,836,993</b>	<b>55,550,434</b>	<b>117.79</b>	<b>121.77</b>
<b>Total Assets and Liabilities</b>	<b>2,490,714,280</b>	<b>2,477,864</b>	<b>2,493,192,144</b>	<b>2,493,192,144</b>	<b>2,101,010,573</b>	<b>(392,181,571)</b>	<b>84.27</b>	<b>84.35</b>
<b>Net Assets (Equity)</b>								
Accumulated Surplus / (Deficit)	2,490,714,280	2,477,864	2,493,192,144	2,493,192,144	2,101,010,573	(392,181,571)	84.27	84.35
<b>Total Net Assets</b>	<b>2,490,714,280</b>	<b>2,477,864</b>	<b>2,493,192,144</b>	<b>2,493,192,144</b>	<b>2,101,010,573</b>	<b>(392,181,571)</b>	<b>84.27</b>	<b>84.35</b>

***Financial Position: Explanation of Variances between Approved Budget and Actual***

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

**Inventories:**

Inventories are held by the municipality for own consumption. Inventories Include consumables, material and supplies and water stock held at the end of the financial year. The budgeted amount is higher than anticipated.

**Receivables from Exchange Transactions:**

The budgeted amount is higher than anticipated due to improvement on the payments of outstanding debtors.

**Receivables from Non-exchange Transactions:**

The variance is due to unanticipated increase in bad debt provision for traffic fines.

**VAT Receivable:**

National Treasury Budget Template not aligned to GRAP and does not provide for VAT Receivable.

**Cash and Cash Equivalents:**

Capital and Operating expenditure projects budgeted for, did not realise.

**Current Portion of Long-term Receivables:**

It was over-budgeted for Current Portion of Staff Debtors.

**Property, Plant and Equipment:**

It has been over-budgeted.

**Intangible Assets:**

Capital expenditure reclassified to Intangible Assets.

**Investment Property:**

Property Plant and Equipment previously reclassified as Investment Property, but not budgeted for.

**Long-term Receivables:**

It was over-budgeted for Staff Debtors

**Consumer Deposits:**

This amount relates to deposit paid by the consumers for new water and electricity connections. The budgeted amount is slightly higher than anticipated.

**Provisions:**

This amount relates to Employee Related Benefits and Rehabilitation of landfill sites. The budgeted amount is slightly higher than anticipated.

**Payables from Exchange Transactions:**

The variance is due to unanticipated Creditors' accruals at year-end.

**Unspent Conditional Grants and Receipts:**

No budget provision is allowed for the Unspent Conditional Grants, unless a rollover has been approved by National Treasury.

**Current Portion of Long-term Liabilities:**

Current Portion of Long-term Liability include Finance Lease Liability not budgeted for.

**Long-term Liabilities:**

It was over-budgeted for Long-term Liabilities.

**Retirement Benefit Liabilities:**

National Treasury Budget Template not aligned to GRAP and does not provide for Retirement Benefit Liabilities on the face of the Statement of Financial Position. The budget for this item is included in the Non-Current Provisions, in line with NT template.

**Non-current Provisions:**

Non-Current Provisions include budget amount for the Post-Retirements Benefits.

**Accumulated Surplus / (Deficit):**

It was over-budgeted for Accumulated Surplus.

RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE WITH THE STATEMENT OF FINANCIAL PERFORMANCE:

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
<b>FINANCIAL PERFORMANCE</b>								
<b>Revenue from Non-exchange Transactions</b>								
Property Rates	160,564,979	(14)	160,564,965	160,564,965	160,671,150	106,185	100.07	100.07
Fines, Penalties and Forfeits	3,760,286	202,156	3,962,442	3,962,442	34,832,471	30,870,029	879.07	926.33
Licences and Permits	10,195,871	(197,005)	9,998,866	9,998,866	13,546,854	3,547,988	135.48	132.87
Transfers and Subsidies	148,161,000	1,163,315	149,324,315	149,324,315	144,390,088	(4,934,227)	96.70	97.45
Interest, Dividends and Rent on Land Earned	3,500,000	-	3,500,000	3,500,000	1,125,936	(2,374,064)	32.17	32.17
<b>Revenue from Exchange Transactions</b>								
Licences and Permits	1,577,010	700,001	2,277,011	2,277,011	-	(2,277,011)	0.00	0.00
Service Charges	382,851,275	(12,757,614)	370,093,661	370,093,661	363,348,296	(6,745,365)	98.18	94.91
Sales of Goods and Rendering of Services	5,868,005	2,673,893	8,541,898	8,541,898	8,834,374	292,476	103.42	150.55
Rental from Fixed Assets	1,309,449	464,692	1,774,141	1,774,141	614,198	(1,159,943)	34.62	46.91
Interest, Dividends and Rent on Land Earned	12,634,127	210,010	12,844,137	12,844,137	14,409,988	1,565,851	112.19	114.06
Operational Revenue	1,334,429	470,776	1,805,205	1,805,205	1,267,381	(537,824)	70.21	94.98
<b>Total Revenue</b>	<b>731,756,431</b>	<b>(7,069,790)</b>	<b>724,686,641</b>	<b>724,686,641</b>	<b>743,040,736</b>	<b>18,354,095</b>	<b>102.53</b>	<b>101.54</b>
<b>Expenditure</b>								
Employee Related Costs	256,006,847	(6,962,382)	249,044,465	249,044,465	245,776,991	(3,267,474)	98.69	96.00
Remuneration of Councillors	11,775,589	335,029	12,110,618	12,110,618	12,065,883	(44,735)	99.63	102.47
Depreciation and Amortisation	83,730,150	-	83,730,150	83,730,150	73,526,682	(10,203,468)	87.81	87.81
Impairment Losses	31,680,232	18,316,609	49,996,841	49,996,841	61,478,776	11,481,935	122.97	194.06
Interest, Dividends and Rent on Land	3,768,124	-	3,768,124	3,768,124	14,324,358	10,556,234	380.15	380.15
Bulk Purchases	225,623,251	-	225,623,251	225,623,251	217,588,330	(8,034,921)	96.44	96.44
Contracted Services	42,990,927	(19,734)	42,971,193	42,971,193	35,492,455	(7,478,738)	82.60	82.56
Inventory Consumed	30,426,931	(3,022,382)	27,404,549	27,404,549	20,580,753	(6,823,796)	75.10	67.64
Transfers and Subsidies Paid	2,854,627	(2,825,027)	29,600	29,600	372,340	342,740	1,257.91	13.04
Operating Leases	3,819,490	(287,730)	3,531,760	3,531,760	2,725,534	(806,226)	77.17	71.36
Operational Costs	64,923,690	(7,713,013)	57,210,677	57,210,677	59,495,162	2,284,485	103.99	91.64
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	1,591,775	1,591,775	0.00	0.00
<b>Total Expenditure</b>	<b>757,599,858</b>	<b>(2,178,630)</b>	<b>755,421,228</b>	<b>755,421,228</b>	<b>745,019,039</b>	<b>(10,402,189)</b>	<b>98.62</b>	<b>98.34</b>
<b>Surplus/(Deficit for the Year</b>	<b>(25,843,427)</b>	<b>(4,891,160)</b>	<b>(30,734,587)</b>	<b>(30,734,587)</b>	<b>(1,978,303)</b>	<b>28,756,284</b>	<b>-</b>	<b>-</b>

***Financial Position: Explanation of Variances between Approved Budget and Actual***

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

**Fines, Penalties and Forfeits:**

Fines mostly relate to the traffic fines and arise from unanticipated traffic infringements.

**Licences and Permits:**

Licences and Permits mostly relate to motor registration and is influenced by the extent of vehicle registrations. The licences and Permits revenue recognised is higher than anticipated.

**Interest, Dividends and Rent on Land Earned: Non-Exchange**

This relates to the interest earned on the outstanding Property Rates Accounts. The interest realised is lower than anticipated.

**Rental from Fixed Assets:**

This relates to the rental of municipal buildings, community halls and other municipal facilities. The revenue recognised is lower than anticipated.

**Interest, Dividends and Rent on Land Earned: Exchange Transactions**

This relates to the interest earned on the Outstanding Consumer Debtors, Bank and Investments. The interest is slightly under budgeted for.

**Operational Revenue:**

The variance is due to the Skills Development Levy Refund not realised.

**Depreciation and Amortisation:**

The variance is due to Capital expenditure not realised.

**Impairment Losses:**

The variance is due to the unanticipated increase in bad debt provision for traffic fines.

**Interest, Dividends and Rent on Land:**

The variance is due to interest charged on Overdue Creditors and Interest on Finance Lease was not budgeted for.

**Contracted Services:**

Contracted Services mostly relate to outsourced work awarded relation to the repairs and maintenance of municipal infrastructure assets and includes business and advisory consulting fees. The under-spending is due to lack of maintenance plans and the implementation of budget controls.

**Inventory Consumed:**

Inventory Consumed relates to consumables, fuel and oil. It includes material and supplies used for repairs and maintenance. The under-spending is due to lack of repairs and maintenance plans.

**Operating Leases:**

Operating leases relate to rental of photo copy machines and landfill sites machinery and equipment. The contract for the landfill sites machinery and equipment was cancelled in May 2018.

**RECONCILIATION OF BUDGETED CAPITAL EXPENDITURE WITH THE CAPITAL EXPENDITURE PER FUNCTION:**

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
<b>CAPITAL EXPENDITURE PER FUNCTION</b>								
Executive and Council	157,000	2,600,000	2,757,000	2,757,000	523,810	(2,233,190)	19.00	333.64
Finance and Administration	4,655,500	818,025	5,473,525	5,473,525	4,165,727	(1,307,798)	76.11	89.48
Community and Social Services	599,000	250,000	849,000	849,000	730,317	(118,683)	86.02	121.92
Public Safety	950,000	1,200,000	2,150,000	2,150,000	216,028	(1,933,972)	10.05	22.74
Sport and Recreation	4,591,455	2,449,654	7,041,109	7,041,109	6,419,793	(621,316)	91.18	139.82
Health	575,000	(200,000)	375,000	375,000	-	(375,000)	0.00	0.00
Environmental Protection	940,000	360,000	1,300,000	1,300,000	348,914	(951,086)	26.84	37.12
Planning and Development	1,630,985	1,040,920	2,671,905	2,671,905	2,538,482	(133,423)	95.01	155.64
Road Transport	2,820,000	(1,131,652)	1,688,348	1,688,348	420,919	(1,267,429)	24.93	14.93
Energy Sources	7,255,000	(2,314,670)	4,940,330	4,940,330	3,516,114	(1,424,216)	71.17	48.46
Waste Management	3,145,000	2,491,160	5,636,160	5,636,160	4,720,177	(915,983)	83.75	150.09
Waste Water Management	27,068,360	(530,369)	26,537,991	21,537,991	17,205,934	(4,332,057)	79.89	63.56
Water Management	5,292,420	2,720,932	8,013,352	9,103,352	7,013,005	(2,090,346)	77.04	132.51
<b>Total Capital Expenditure</b>	<b>59,679,720</b>	<b>9,754,000</b>	<b>69,433,720</b>	<b>65,523,720</b>	<b>47,819,219</b>	<b>(17,704,500)</b>	<b>72.98</b>	<b>80.13</b>

**Capital Expenditure per Function: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items for Capital Expenditure per Function are explained below:

**Executive and Council:**

Projects relate to PA system, EDMS and Ward Capital Programmes, with the budget rolled over to 2018/19 for implementation of the projects. The budget rollovers were approved by Council on 26 July 2018.

**Finance and Administration:**

Projects relate to Office Equipment, Library Upgrade, IT Server and IT Building Upgrade, with the budget rollover to 2018/19 for implementation of the projects. The budget rollovers were approved by Council on 26 July 2018.

**Community and Social Services:**

The Capital Expenditure budget for Community and Social Services was slightly underspent due to lack of planning.

**Public Safety:**

The project relates to Fire Engine, with the budget rollover to 2018/19 for implementation of the project. The budget rollover was approved by Council on 26 July 2018.

**Health:**

The Non-Spending of Health Capital budget was due to lack of planning and the budget had to be forfeited.

**Roads and Transport:**

The underspending of Roads and Transport Capital budget was due to lack of planning and the budget had to be forfeited.

**Environmental Protection:**

The project relates to Wheelie Bins, with the budget rollover to 2018/19 for implementation of the project. The budget rollover was approved by Council on 26 July 2018.

**Electricity:**

The underspending of Energy Capital budget was due to lack of planning and the budget had to be forfeited.

**Water:**

The Capital Expenditure budget for Water Management was slightly underspent due to lack of planning.

**Waste Water Management:**

The project relates to Vehicles, with the budget rollover to 2018/19 for implementation of the projects. The budget rollover was approved by Council on 26 July 2018.

**Waste Management:**

The Capital Expenditure budget for Waste Management was slightly underspent due to lack of planning.

**RECONCILIATION OF BUDGETED CASH FLOW WITH THE CASH FLOW STATEMENT:**

Description	Original Budget	Budget Adjustments	Adjustment Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
<b>CASH FLOW</b>								
<b>Cash Flows from/(used in) Operating Activities</b>								
Property Rates	150,931,064	(6,037,243)	144,893,822	144,893,822	159,940,086	15,046,264	110.38	105.97
Transfers and Subsidies	148,879,222	445,000	149,324,222	149,324,222	144,924,843	(4,399,379)	97.05	97.34
Service Charges	348,047,318	(13,921,893)	334,125,425	334,125,425	331,659,159	(2,466,266)	99.26	95.29
External Interest and Dividends Received	16,134,121	210,000	16,344,121	16,344,121	8,751,748	(7,592,373)	53.55	54.24
Other Receipts	23,327,553	3,432,000	26,759,553	26,759,553	24,394,165	(2,365,388)	91.16	104.57
Employee Related Costs	(256,021,847)	6,977,359	(249,044,488)	(249,044,488)	(240,488,766)	8,555,722	0.00	0.00
Remuneration of Councillors	(11,725,189)	(385,429)	(12,110,618)	(12,110,618)	(12,065,883)	44,735	0.00	0.00
External Interest and Dividends Paid	(3,768,124)	-	(3,768,124)	(3,768,124)	(5,073,469)	(1,305,345)	0.00	0.00
Suppliers Paid	(285,174,996)	(10,824,045)	(295,999,041)	(295,999,041)	(276,808,142)	19,190,899	0.00	0.00
Other Payments	(72,741,708)	11,969,267	(60,772,441)	(60,772,441)	(58,516,877)	2,255,564	0.00	0.00
VAT Receivable / Payable	-	-	-	-	(11,424,658)	(11,424,658)	0.00	0.00
<b>Cash Flows from/(used in) Investing Activities</b>								
Purchase of Property, Plant and Equipment	(59,679,720)	(9,754,000)	(69,433,720)	(69,433,720)	(47,542,831)	21,890,889	0.00	0.00
Proceeds on Disposal of Property, Plant and Equipment	-	1,600,000	1,600,000	1,600,000	885,959	(714,041)	55.37	0.00
Proceeds on Disposal of Investment Property	-	-	-	-	-	-	0.00	0.00
Decrease / (Increase) in Long-term Receivables	-	-	-	-	48,751	48,751	0.00	0.00
<b>Cash Flows from/(used in) Financing Activities</b>								
Repayment of Borrowings	(6,442,906)	-	(6,442,906)	(6,442,906)	(8,622,667)	(2,179,761)	0.00	0.00
<b>Cash and Cash Equivalents at End of the Year</b>	<b>(8,235,211)</b>	<b>(16,288,984)</b>	<b>(24,524,195)</b>	<b>(24,524,195)</b>	<b>10,061,418</b>	<b>34,585,613</b>	<b>0.00</b>	<b>0.00</b>

**Cash Flow: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below:

**Other Receipts:**

Other Receipts mostly relate to unallocated deposits for Service Charges Revenue.

**External Interest and Dividends Paid:**

The variance is due to interest charged on Overdue Creditors and Interest on Finance Lease was not budgeted for.

**Purchase of Property, Plant and Equipment:**

The underspending of projects relate to various Capital Programmes , with the budget rollover to 2018/19 for implementation of the projects. The budget rollover was approved by Council on 26 July 2018.

**Proceeds on Disposal of Property, Plant and Equipment:**

The auctions did not deliver the desired returns as anticipated with the disposal of assets.

**Loans repaid:**

The Finance Lease Liability was not budgeted for.

**RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE:**

Description	2017/18		2016/17
	R		R
<b>Net surplus/(deficit) per the statement of financial performance</b>	<b>(1,978,303)</b>		<b>4,503,220</b>
<b>Revenue from Non-exchange Transactions</b>			
Property Rates	(106,185)		768,057
Fines, Penalties and Forfeits	(30,870,029)		(7,086,561)
Licences and Permits	(3,547,988)		(720,020)
Transfers and Subsidies	4,934,227		(6,915,268)
Surcharges and Taxes	-		-
Interest, Dividends and Rent on Land Earned	2,374,064		988,634
<b>Revenue from Exchange Transactions</b>			
Licences and Permits	2,277,011		1,205,049
Service Charges	6,745,365		17,108,416
Sales of Goods and Rendering of Services	(292,476)		29,734
Rental from Fixed Assets	1,159,943		(304,320)
Interest, Dividends and Rent on Land Earned	(1,565,851)		(2,585,137)
Operational Revenue	537,824		(2,219,662)
<b>Expenditure</b>			
Employee Related Costs	(3,267,474)		(4,358,891)
Remuneration of Councillors	(44,735)		573,661
Depreciation and Amortisation	(10,203,468)		(12,076,134)
Impairment Losses	11,481,935		(5,228,060)
Finance Costs	10,556,234		9,744,978
Bulk Purchases	(8,034,921)		(1,257,231)
Contracted Services	(7,478,738)		(4,800,577)
Inventory Consumed	(6,823,796)		(1,058,388)
Grants and Subsidies Paid	342,740		-
Operating Leases	(806,226)		(3,139,633)
Operational Costs	2,284,485		(2,990,312)
Loss on Disposal of Property, Plant and Equipment	1,591,775		2,058,422
<b>Net surplus/deficit per approved budget</b>	<b>(30,734,587)</b>		<b>(17,760,023)</b>



## **KOUGA LOCAL MUNICIPALITY**

### **ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

#### **1. BASIS OF PRESENTATION**

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and in accordance with the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

The municipality implemented the Municipal Standard Chart of Accounts (mSCOA) during the year ended 30 June 2018 as required in terms of the Municipal Regulations on the Standard Chart of Accounts, announced in Government Gazette No 37577 of 22 April 2014, in accordance with section 168 of the Local Government: Municipal Finance Management Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

##### **1.1 Presentation Currency**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

##### **1.2 Changes in Accounting Policy and Comparability**

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2017 and 30 June 2018 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

With the adoption of mSCOA the municipality reclassified certain balances in order to comply with the instruction notes issued. The result of the reclassification is set out below and in the relevant Notes to the Annual Financial Statements.

##### **1.3 Critical Judgements, Estimations and Assumptions**

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

###### **1.3.1 Revenue Recognition**

Accounting Policy 9.2 on Revenue from Exchange Transactions and Accounting Policy 9.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

### **1.3.2 Impairment of Financial Assets**

Accounting Policy 7.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- **Impairment of Trade Receivables:**

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

### **1.3.3 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property**

As described in Accounting Policies 2.3, 4.2 and 5.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

### **1.3.4 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, and Inventories**

Accounting Policy 5 on Impairment of Assets, Accounting Policy 3.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 7.2 on Inventory – Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value or Current Replacement Cost.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Inventory, Property, Plant and Equipment, and Intangible Assets are disclosed in Notes 2, 9, 10 and X to the Annual Financial Statements, if applicable.

### **1.3.5 Water Inventory**

The estimation of the Water Inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Accounting Policy 7.2.2

### 1.3.6 Defined Benefit Plan Liabilities

As described in Accounting Policy 11.2, Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

### 1.3.7 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

### 1.3.8 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

## 1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a *Going Concern Assumption*.

## 1.5 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

- |            |  |
|------------|--|
| • GRAP 18  | Segment Reporting  |
| • GRAP 20  | Related Party Disclosures  |
| • GRAP 32  | Service Concession Arrangement Grantor   |
| • GRAP 108 | Statutory Receivables  |
| • GRAP 109 | Accounting by Principals and Agents  |
| • IGRAP 17 | Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset |

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate disclosure:

- |           |                           |
|-----------|---------------------------|
| • GRAP 20 | Related Party Disclosures |
|-----------|---------------------------|

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality, except for:

- |  |                                       |
|--|---------------------------------------|
| • GRAP 108   | Statutory Receivables:-               |
| It is expected that the Standard will affect the valuation of Receivables from Non-Exchange Transactions, but the extent cannot be determined at this stage.   |                                       |
| • GRAP 109   | Accounting by Principals and Agents:- |
| The effect of this Standard on accounting for transactions between the municipality, another function of government or private sector and third parties, can only be determined once it becomes effective. |                                       |

## 2. PROPERTY, PLANT AND EQUIPMENT

### 2.1 Initial Recognition

Property, Plant and Equipment are initially recognised at cost.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in Surplus or Deficit and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (mSCOA).

## 2.2 Subsequent Measurement

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

## 2.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation rates are based on the following estimated useful lives:

	Asset Class	Years		Asset Class	Years
	<b>Buildings</b>			<b>Community</b>	
	Improvements	5 - 50		Community Facilities	5 - 50
				Recreational Facilities	10 - 40
	<b>Infrastructure</b>			<b>Other</b>	
	Electricity	10 - 80		Computer Equipment	3 - 10
	Railways	30		Emergency Equipment	5 - 10
	Roads and Paving	5 - 80		Furniture and Fittings	5 - 15
	Sanitation	5 - 80		Motor Vehicles	7 - 15
	Sewerage / Solid Waste	5 - 80		Office Equipment	3 - 15
	Water	5 - 80		Plant and Equipment	2 - 20
	Landfill Sites	30 - 50		Other Assets	5 - 15

## 2.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

## 2.5 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

## 2.6 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

## 2.7 Derecognition

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

## 3.8 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

**3. HERITAGE ASSETS**  
**4. INTANGIBLE ASSETS**

**4.1 Initial Recognition**

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets.

Intangible Assets are initially recognised at cost.

Where an Intangible Asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in Surplus or Deficit and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (mSCOA).

**4.2 Subsequent Measurement, Amortisation and Impairment**

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is charged on a *Straight-line Method* over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

The amortisation rates are based on the following estimated useful lives:

	Asset Class	Years
	Computer Software Purchased	3 - 5

**4.3 Derecognition**

The gain or loss arising from the derecognition of an item of Intangible Asset is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

**5. INVESTMENT PROPERTY**

**5.1 Initial Recognition**

At initial recognition, the municipality measures Investment Property at cost. However, where an Investment Property was acquired through a non-exchange transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in Surplus or Deficit and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (mSCOA).

## **5.2 Subsequent Measurement**

Investment Property is measured using the *Cost Model* and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the *Straight-line Method* over the useful life of the property, which is estimated at 5 - 50 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an Investment Property is recognised in Surplus or Deficit.

## **5.3 Derecognition**

The gain or loss arising from the derecognition of an item of Investment Property is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

# **6. IMPAIRMENT OF ASSETS**

The municipality classifies all assets held with the primary objective of generating a commercial return as *Cash Generating Assets*. All other assets are classified as *Non-cash Generating Assets*.

## **6.1 Impairment of Cash Generating Assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

## **6.2 Impairment of Non-cash Generating Assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

## 7. FINANCIAL INSTRUMENTS

The municipality has various types of Financial Instruments and these can be broadly categorised as *Financial Assets*, *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement.

### Initial Recognition

Financial Assets and Financial Liabilities are recognised when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### 7.1 Financial Assets – Classification

The municipality has the following types of Financial Assets:

Type of Financial Asset	Classification in terms of GRAP 104
Long-term Receivables	Financial Assets at Amortised Cost
Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Investment Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial Assets at Fair Value
Current Portion of Long-term Receivables	Financial Assets at Amortised Cost

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank

## 7.2 Financial Liabilities – Classification

The municipality has the following types of Financial Liabilities:

Type of Financial Liability	Classification in terms of GRAP 104
Long-term Liabilities	Financial Liabilities at Amortised Cost
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost
Current Portion of Long-term Liabilities	Financial Liabilities at Amortised Cost

## 7.3 Initial and Subsequent Measurement

### 7.3.1 Financial Assets:

#### Financial Assets measured at Amortised Cost

*Financial Assets at Amortised Cost* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

#### Financial Assets measured at Fair Value

*Financial Assets at Fair Value* are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in Surplus or Deficit.

### 7.3.2 Financial Liabilities:

#### Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in Surplus or Deficit by applying the effective interest rate.

Bank Borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the *Accrual Basis* and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

## 7.4 Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised through the use of an allowance account.

### 7.4.1 Financial Assets at Amortised Cost

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable for the following reasons:

- It is management's judgement that the accounts are not "lost events" in terms of GRAP 104.58.
- State Departments and Entities have to pay their creditors within 30 days in terms of the PFMA.
- Interest is charged on all outstanding balances at a rate of the banker's prime rate plus 1%.
- There is an urge from National Treasury that State Departments and Entities should start paying their outstanding debt.



The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in Surplus or Deficit.

### **7.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

### **7.6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in Surplus or Deficit.

## **8. INVENTORIES**

### **8.1 Initial Recognition**

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

### **8.2 Subsequent Measurement**

#### **8.2.1 Consumable Stores**

Inventories sold are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the *weighted average Method*.

Consumable stores distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and current replacement cost (the cost the municipality would incur to acquire the asset on the reporting date). The cost is determined using the *weighted average Method*.

### **8.2.2 Water Inventory**

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the *FIFO Method*, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

## **9. REVENUE RECOGNITION**

### **9.1 General**

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

### **9.2 Revenue from Exchange Transactions**

#### **9.2.1 Service Charges**

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### **9.2.2 Prepaid Electricity**

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

#### **9.2.3 Rentals Received**

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

#### **9.2.4 Interest Earned**

Interest earned on investments is recognised in Surplus or Deficit on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

#### **9.2.5 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### **9.2.6 Revenue from Agency Services**

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

#### **9.2.7 Sale of Goods (including Houses)**

Revenue from the sale of goods is recognised when all the following conditions have been met:

- (a) The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### **9.3 Revenue from Non-exchange Transactions**

#### **9.3.1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **9.3.2 Fines**

Fines constitute both spot fines and summonses

Revenue for fines is recognised when the fine is issued at the full amount of the receivable. The municipality uses estimates to determine the amount of revenue that the municipality is entitled to collect that is subject to further legal proceedings.

#### **9.3.3 Public Contributions**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

#### **9.3.2 Other Donations and Contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

#### **9.3.4 Government Grants and Receipts**

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in Surplus or Deficit.

### **9.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

## **10. PROVISIONS**

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in Surplus or Deficit as a finance cost as it occurs.

### **10.1 Provision for Environmental Rehabilitation**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to Surplus or Deficit.

## **11. EMPLOYEE BENEFIT LIABILITIES**

### **11.1 Short-term Employee Benefits**

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

### **11.2 Post-employment Benefits**

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

### 11.2.1 Defined Contribution Plans

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in Surplus or Deficit in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### 11.2.2 Defined Benefit Plans

#### Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the *Projected Unit Credit Method*, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in Surplus or Deficit.

Past-service costs are recognised immediately in Surplus or Deficit.

#### Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through Surplus or Deficit.

#### Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

#### Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the *Projected Unit Credit Method*. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are recognised immediately in Surplus or Deficit.

Past-service costs are recognised immediately in Surplus or Deficit.

## 12. LEASES

### 12.1 *The Municipality as Lessee*

#### 12.1.1 Finance Leases

Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are recognised at equal amounts. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments to the fair value of the asset, plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

#### 12.1.2 Operating Leases

The municipality recognises operating lease rentals as an expense in Surplus or Deficit on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Any lease incentives are included as part of the net consideration agreed.

### 12.2 *The Municipality as Lessor*

Amounts due from lessees under **Finance Leases** or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from **Operating Leases** is recognised on a *Straight-line Basis* over the term of the relevant lease.

## 13. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in Surplus or Deficit as expenses in the period that the events giving rise to the transfer occurred.

## 14. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

## **15. UNAUTHORISED EXPENDITURE**

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in Surplus or Deficit in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in Surplus or Deficit.

## **16. IRREGULAR EXPENDITURE**

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in Surplus or Deficit in the period it occurred and where recovered, it is subsequently accounted for as revenue in Surplus or Deficit.

## **17. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in Surplus or Deficit in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in Surplus or Deficit.

## **18. MATERIAL LOSSES**

The MFMA requires the disclosure of material losses incurred during the year under review. The disclosure is provided in order to comply to the legislative requirements governing Municipalities and Municipal Entities.

Due to their significance, the complete calculation of water and electricity losses is provided, including the opening balance, purchases, sales and closing balance where applicable. The unit rate is the rate per the last purchase as inventory is measured based on the *First-In-First-Out Method* as defined by GRAP 12 (*Inventories*).

## **19. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

## **20. COMMITMENTS**

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in Surplus or Deficit, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

## **21. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

## **22. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

## **23. BUDGET INFORMATION**

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2017 to 30 June 2018.

## **24. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy.

In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in notes to the Annual Financial Statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Refer to Note 42 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.



**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>1. GENERAL INFORMATION</b>		
Kouga Municipality is a local government institution in Jeffreys Bay, Eastern Cape, and is one of seven local municipalities under the jurisdiction of the Sarah Baartman District Municipality. The address of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).		
<b>2. INVENTORIES</b>		
Consumables Stores	6,241,551	4,564,953
Water - at cost	549,039	429,688
Less: Provision for Obsolete Stock	(124,409)	(42,278)
<b>Total Inventories</b>	<b>6,666,181</b>	<b>4,952,364</b>

Inventories are held for own use and measured at the lower of Cost and Current Replacement Cost. No write downs of Inventory to Net Realisable Value were required.

The cost of Inventories recognised as an expense during the period was R20,580,753 (2017: R46,172,326).

No Inventories have been pledged as collateral for Liabilities of the municipality.

**3. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2018</b>			
Service Debtors:	141,504,860	92,926,783	48,578,077
Electricity	30,666,598	9,333,292	21,333,306
Refuse	22,627,593	21,672,833	954,760
Sewerage	17,861,226	15,465,116	2,396,110
Other Service Charges	26,027,795	11,058,259	14,969,536
Water	44,321,647	35,397,282	8,924,365
Other Receivables	2,518	-	2,518
Housing Selling Scheme	1,350	-	1,350
Other Debtors	1,168	-	1,168
Prepayments and Advances	2,752,843	22,000	2,730,843
Recoveries from Staff	185,443	22,000	163,443
Annual Licence Fees	2,567,400	-	2,567,400
Control, Clearing and Interface Accounts	518,922	-	518,922
<b>Total Receivables from Exchange Transactions</b>	<b>144,779,143</b>	<b>92,948,783</b>	<b>51,830,360</b>
	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2017</b>			
Service Debtors:	124,532,721	81,975,109	42,557,613
Electricity	28,710,600	10,170,542	18,540,058
Refuse	18,214,918	17,660,705	554,213
Sewerage	16,320,975	14,148,549	2,172,425
Other Service Charges	24,668,908	9,322,007	15,346,900
Water	36,617,321	30,673,305	5,944,016
Other Receivables	2,518	-	2,518
Housing Selling Scheme	1,350	-	1,350
Other Debtors	1,168	-	1,168
Prepayments and Advances	(100,018)	-	(100,018)
Recoveries from Staff	(100,018)	-	(100,018)
Annual Licence Fees	-	-	-
Control, Clearing and Interface Accounts	-	-	-
<b>Total Receivables from Exchange Transactions</b>	<b>124,435,221</b>	<b>81,975,109</b>	<b>42,460,112</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratios of the municipality's Receivables.

**3.1 Ageing of Receivables from Exchange Transactions**

As at 30 June 2018

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Electricity:</b>					
Gross Balances	17,582,244	2,132,100	1,099,125	9,853,129	30,666,598
Less: Provision for Impairment	74,652	14,768	1,126,016	8,117,856	9,333,292
<b>Net Balances</b>	<b>17,507,592</b>	<b>2,117,333</b>	<b>(26,892)</b>	<b>1,735,273</b>	<b>21,333,306</b>
<b>Refuse:</b>					
Gross Balances	2,525,902	1,138,209	905,598	18,057,884	22,627,593
Less: Provision for Impairment	3,920	805,487	1,019,149	19,844,278	21,672,833
<b>Net Balances</b>	<b>2,521,982</b>	<b>332,723</b>	<b>(113,551)</b>	<b>(1,786,394)</b>	<b>954,760</b>
<b>Sewerage:</b>					
Gross Balances	2,769,303	960,755	792,258	13,338,910	17,861,226
Less: Provision for Impairment	59,284	532,947	865,934	14,006,951	15,465,116
<b>Net Balances</b>	<b>2,710,019</b>	<b>427,808</b>	<b>(73,675)</b>	<b>(668,042)</b>	<b>2,396,110</b>
<b>Other Service Charges:</b>					
Gross Balances	12,959,024	544,952	612,911	11,910,909	26,027,795
Less: Provision for Impairment	348,417	233,166	474,857	10,001,819	11,058,259
<b>Net Balances</b>	<b>12,610,607</b>	<b>311,786</b>	<b>138,054</b>	<b>1,909,089</b>	<b>14,969,536</b>
<b>Water:</b>					
Gross Balances	10,079,626	1,958,629	1,830,218	30,453,174	44,321,647
Less: Provision for Impairment	122,617	1,171,971	2,037,869	32,064,825	35,397,282
<b>Net Balances</b>	<b>9,957,009</b>	<b>786,658</b>	<b>(207,652)</b>	<b>(1,611,650)</b>	<b>8,924,365</b>
<b>Other Receivables:</b>					
Gross Balances	2,518	-	-	-	2,518
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>2,518</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,518</b>
<b>Prepayments and Advances:</b>					
Gross Balances	2,752,843	-	-	-	2,752,843
Less: Provision for Impairment	22,000	-	-	-	22,000
<b>Net Balances</b>	<b>2,730,843</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,730,843</b>
<b>Control, Clearing and Interface Accounts:</b>					
Gross Balances	518,922	-	-	-	518,922
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>518,922</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>518,922</b>

As at 30 June 2018 Receivables of R51,830,360 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current 0 - 30 days	Past Due			Total Past Due
		31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>					
Gross Balances	49,190,382	6,734,646	5,240,110	83,614,006	144,779,143
Less: Provision for Impairment	630,890	2,758,338	5,523,826	84,035,729	92,948,783
<b>Net Balances</b>	<b>48,559,491</b>	<b>3,976,308</b>	<b>(283,716)</b>	<b>(421,724)</b>	<b>51,830,360</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

As at 30 June 2017

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Electricity:</b>					
Gross Balances	15,378,666	2,109,615	1,037,225	10,185,093	28,710,600
Less: Provision for Impairment	-	-	-	-	10,170,542
<b>Net Balances</b>	<b>15,378,666</b>	<b>2,109,615</b>	<b>1,037,225</b>	<b>10,185,093</b>	<b>18,540,058</b>
<b>Refuse:</b>					
Gross Balances	2,204,071	600,932	443,941	14,965,974	18,214,918
Less: Provision for Impairment	-	-	-	-	17,660,705
<b>Net Balances</b>	<b>2,204,071</b>	<b>600,932</b>	<b>443,941</b>	<b>14,965,974</b>	<b>554,213</b>
<b>Sewerage:</b>					
Gross Balances	2,733,774	739,630	540,450	12,307,122	16,320,975
Less: Provision for Impairment	-	-	-	-	14,148,549
<b>Net Balances</b>	<b>2,733,774</b>	<b>739,630</b>	<b>540,450</b>	<b>12,307,122</b>	<b>2,172,425</b>
<b>Other Service Charges:</b>					
Gross Balances	24,668,908	-	-	-	24,668,908
Less: Provision for Impairment	-	-	-	-	9,322,007
<b>Net Balances</b>	<b>24,668,908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,346,900</b>
<b>Water:</b>					
Gross Balances	8,003,476	1,227,251	1,035,371	26,351,223	36,617,321
Less: Provision for Impairment	-	-	-	-	30,673,305
<b>Net Balances</b>	<b>8,003,476</b>	<b>1,227,251</b>	<b>1,035,371</b>	<b>26,351,223</b>	<b>5,944,016</b>
<b>Other Receivables:</b>					
Gross Balances	(9,832,881)	316,419	200,104	9,318,876	2,518
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>(9,832,881)</b>	<b>316,419</b>	<b>200,104</b>	<b>9,318,876</b>	<b>2,518</b>
<b>Prepayments and Advances:</b>					
Gross Balances	(100,018)	-	-	-	(100,018)
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>(100,018)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(100,018)</b>

As at 30 June 2017 Receivables of R42,460,112 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total Past Due
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>					
Gross Balances	43,055,996	4,993,847	3,257,090	73,128,288	124,435,221
Less: Provision for Impairment	-	-	-	-	81,975,109
<b>Net Balances</b>	<b>43,055,996</b>	<b>4,993,847</b>	<b>3,257,090</b>	<b>73,128,288</b>	<b>42,460,112</b>

**2018**  
**R**

**2017**  
**R**

**3.2 Reconciliation of the Provision for Impairment**

Balance at beginning of year	81,975,108	72,928,701
Impairment Losses recognised	21,810,061	15,171,963
Impairment Losses reversed	(10,836,386)	(6,125,555)
<b>Balance at end of year</b>	<b>92,948,783</b>	<b>81,975,109</b>

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**3.3 Derecognition of Financial Assets**

No Financial Assets have been transferred to other parties during the year.

**4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2018</b>			
Property Rates	35,894,635	16,017,170	19,877,465
Insurance Claims	(197,344)	-	(197,344)
Fines	34,620,208	29,000,102	5,620,106
LGSETA Interns	1,216,938	-	1,216,938
<b>Total Receivables from Non-exchange Transactions</b>	<b>71,534,437</b>	<b>45,017,273</b>	<b>26,517,164</b>
	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2017</b>			
Property Rates	35,163,570	17,589,394	17,574,176
Insurance Claims	-	-	-
Fines	25,099,061	11,672,617	13,426,444
LGSETA Interns	-	-	-
Over Payment of Contractors	-	-	-
<b>Total Receivables from Non-exchange Transactions</b>	<b>60,262,631</b>	<b>29,262,011</b>	<b>31,000,620</b>

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

**4.1 Ageing of Receivables from Non-exchange Transactions**

**As at 30 June 2018**

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Property Rates:</b>					
Gross Balances	6,971,257	1,323,652	712,068	26,887,658	35,894,635
Less: Provision for Impairment	3,037,176	594,017	319,556	12,066,421	16,017,170
<b>Net Balances</b>	<b>3,934,081</b>	<b>729,634</b>	<b>392,512</b>	<b>14,821,237</b>	<b>19,877,465</b>
<b>Insurance Claims:</b>					
Gross Balances	(197,344)	-	-	-	(197,344)
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>(197,344)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(197,344)</b>
<b>Fines:</b>					
Gross Balances	34,620,208	-	-	-	34,620,208
Less: Provision for Impairment	29,000,102	-	-	-	29,000,102
<b>Net Balances</b>	<b>5,620,106</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,620,106</b>
<b>LGSETA Interns:</b>					
Gross Balances	1,216,938	-	-	-	1,216,938
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>1,216,938</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,216,938</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

As at 30 June 2018 Receivables of R26,517,164 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>					
Gross Balances	42,611,058	1,323,652	712,068	26,887,658	71,534,437
Less: Provision for Impairment	32,037,278	594,017	319,556	12,066,421	45,017,273
<b>Net Balances</b>	<b>10,573,780</b>	<b>729,634</b>	<b>392,512</b>	<b>14,821,237</b>	<b>26,517,164</b>

As at 30 June 2017

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Property Rates:</b>					
Gross Balances	6,261,777	1,241,192	742,313	26,918,289	35,163,570
Less: Provision for Impairment	3,132,235	620,863	371,316	13,464,981	17,589,394
<b>Net Balances</b>	<b>3,129,542</b>	<b>620,329</b>	<b>370,997</b>	<b>13,453,308</b>	<b>17,574,176</b>

**Fines:**

Gross Balances	25,099,061	-	-	-	25,099,061
Less: Provision for Impairment	11,672,617	-	-	-	11,672,617
<b>Net Balances</b>	<b>13,426,444</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,426,444</b>

As at 30 June 2017 Receivables of R31,000,620 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>					
Gross Balances	31,360,838	1,241,192	742,313	26,918,289	60,262,631
Less: Provision for Impairment	14,804,852	620,863	371,316	13,464,981	29,262,011
<b>Net Balances</b>	<b>16,555,986</b>	<b>620,329</b>	<b>370,997</b>	<b>13,453,308</b>	<b>31,000,620</b>

2018  
R

2017  
R

**4.2 Reconciliation of Provision for Impairment**

Balance at beginning of year	29,262,011	25,539,204
Impairment Losses recognised	15,751,337	3,890,714
Impairment Losses reversed	3,925	(167,907)
Amounts written off as uncollectable	-	-
<b>Balance at end of year</b>	<b>45,017,273</b>	<b>29,262,011</b>

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

**5. VAT RECEIVABLE**

Vat Receivable	<b>22,713,472</b>	<b>11,288,813</b>
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VAT Payable is the Net Payable from all VAT Control Accounts and agree to the VAT201 Returns.

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>6. CASH AND CASH EQUIVALENTS</b>		
Current Investments	90,054,858	78,566,856
Bank Accounts	4,259,846	5,694,930
Cash and Cash Equivalents	421	(8,079)
<b>Total Bank, Cash and Cash Equivalents</b>	<b>94,315,125</b>	<b>84,253,706</b>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

**6.1 Current Investment Deposits**

Call Deposits	90,054,858	78,566,856
<b>Total Current Investment Deposits</b>	<b>90,054,858</b>	<b>78,566,856</b>

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.00 % to 10.00 % (2017: 5.00 % to 10.00 %) per annum.

Deposits attributable to Unspent Conditional Grants	6,941,508	6,406,753
Deposits: General investments	83,113,350	72,160,103
<b>Total Deposits attributable to Commitments of the Municipality</b>	<b>90,054,858</b>	<b>78,566,856</b>

**6.2 Bank Accounts**

Cash in Bank	4,259,846	5,694,930
<b>Total Bank Accounts</b>	<b>4,259,846</b>	<b>5,694,930</b>

The Municipality has the following bank accounts:

**Primary Bank Account**

Cash book balance at beginning of year	5,694,930	2,783,364
Cash book balance at end of year	4,259,846	5,694,930

*First National Bank - Jeffreys bay Branch-Account Number: 52540020791*

Bank statement balance at beginning of year	783,359	2,037,926
Bank statement balance at end of year	524,889	783,359

*First National Bank - Jeffreys bay Branch-Account Number: 52540033304*

Bank statement balance at beginning of year	4,648,585	525,179
Bank statement balance at end of year	3,734,959	4,648,585

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

**6.3 Cash and Cash Equivalents**

Cash Floats and Advances	421	(8,079)
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b>421</b>	<b>(8,079)</b>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>7. OPERATING LEASE RECEIVABLES</b>		
Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:		
Balance at beginning of year	281,727	278,803
Operating Lease - Straightlining	(12,603)	2,924
Operating Lease Revenue effected	-	-
<b>Total Operating Lease Receivables</b>	<b>269,124</b>	<b>281,727</b>

**7.1 Leasing Arrangements**

**The Municipality as Lessor:**

Operating Leases relate to Property owned by the municipality with lease terms of between 1 to 99 years, with an option to extend.

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

**7.2 Amounts receivable under Operating Leases**

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	368,756	472,278
2 to 5 years	1,225,014	1,716,525
More than 5 years	148,262	238,334
<b>Total Operating Lease Arrangements</b>	<b>1,742,032</b>	<b>2,427,136</b>

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an increase of R12,603 (2017: decrease of R-2,924) in current year income.

**8. CURRENT PORTION OF LONG-TERM RECEIVABLES**

Staff Related Long Term Receivables	3,000	3,000
<b>Total Current Portion of Long-term Receivables</b>	<b>3,000</b>	<b>3,000</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**9 PROPERTY, PLANT AND EQUIPMENT**

**30 June 2018**

**Reconciliation of Carrying Value**

Description	Land	Buildings	Infra-structure	Community	Other	Transport Assets	Leased Assets	Total
	R	R	R	R	R	R	R	R
<b>Carrying values at 01 July 2017</b>	<b>237,472,877</b>	<b>51,484,132</b>	<b>1,700,224,788</b>	<b>-</b>	<b>6,117,755</b>	<b>10,252,849</b>	<b>4,603,826</b>	<b>2,010,156,227</b>
Cost	237,472,877	52,215,987	2,180,604,928	-	24,311,311	36,637,299	8,035,195	2,539,277,597
- Completed Assets	237,472,877	52,215,987	2,104,666,351	-	24,311,311	36,637,299	8,035,195	2,463,339,020
- Under Construction	-	-	75,938,577	-	-	-	-	75,938,577
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	(392,081)	(575,096)	-	(967,177)
Accumulated Depreciation:	-	(731,855)	(480,380,140)	-	(17,801,475)	(25,809,354)	(3,431,369)	(528,154,193)
- Cost	-	(731,855)	(480,380,140)	-	(17,801,475)	(25,809,354)	(3,431,369)	(528,154,193)
- Revaluation	-	-	-	-	-	-	-	-
Acquisition of Assets	-	-	-	-	-	-	-	-
- Cost	-	-	(128,334)	-	4,932,438	6,953,059	-	11,757,162
- Capital Under Construction	-	-	29,047,570	6,150,483	587,615	-	-	35,785,668
- Revaluation	-	-	-	-	-	-	-	-
Decommissioning and other Liabilities	15,264	-	-	-	-	-	-	15,264
Increases/Decreases in Revaluation	-	-	-	-	-	-	-	-
Depreciation:	-	(559,313)	(66,302,183)	-	(1,908,416)	(3,002,763)	(1,608,542)	(73,381,217)
- Based on Cost	-	(559,313)	(66,302,183)	-	(1,908,416)	(3,002,763)	(1,608,542)	(73,381,217)
- Based on Revaluation	-	-	-	-	-	-	-	-
Carrying value of Disposals:	-	-	(419,460)	-	(60,431)	(152,380)	(1,097,706)	(1,729,976)
- Cost	-	-	(623,172)	-	(317,074)	(421,816)	(3,347,372)	(4,709,434)
- Accumulated Depreciation	-	-	203,713	-	256,643	269,436	2,249,666	2,979,458
- Based on Cost	-	-	203,713	-	256,643	269,436	2,249,666	2,979,458
Impairment Losses	-	-	-	-	-	-	-	-
Capital under Construction - Completed	-	-	(70,421,791)	(337,456)	-	-	-	(70,759,247)
Other Movements	-	337,456	70,421,790	-	-	-	-	70,759,246
- Cost	-	337,456	70,421,790	-	-	-	-	70,759,246
<b>Carrying values at 30 June 2018</b>	<b>237,488,141</b>	<b>51,262,275</b>	<b>1,662,422,380</b>	<b>5,813,027</b>	<b>9,668,961</b>	<b>14,050,766</b>	<b>1,897,577</b>	<b>1,982,603,128</b>
Cost	237,488,141	52,553,443	2,208,900,990	5,813,027	29,514,290	43,168,542	4,687,823	2,582,126,256
- Completed Assets	237,488,141	52,553,443	2,174,336,635	-	28,926,675	43,168,542	4,687,823	2,541,161,258
- Under Construction	-	-	34,564,355	5,813,027	587,615	-	-	40,964,998
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	(392,081)	(575,096)	-	(967,177)
Accumulated Depreciation:	-	(1,291,168)	(546,478,610)	-	(19,453,248)	(28,542,680)	(2,790,246)	(598,555,951)
- Cost	-	(1,291,168)	(546,478,610)	-	(19,453,248)	(28,542,680)	(2,790,246)	(598,555,951)
- Revaluation	-	-	-	-	-	-	-	-



**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**9 PROPERTY, PLANT AND EQUIPMENT (Continued)**

**30 June 2017**

**Reconciliation of Carrying Value**

Description	Land	Buildings	Infra-structure	Community	Other	Transport Assets	Leased Assets	Total
	R	R	R	R	R	R	R	R
<b>Carrying values at 01 July 2016</b>	<b>237,472,877</b>	<b>54,976,443</b>	<b>1,711,361,562</b>	-	<b>11,096,622</b>	<b>10,252,849</b>	<b>2,369,128</b>	<b>2,027,529,481</b>
Cost	237,472,877	49,094,840	2,133,747,917	-	31,321,810	36,637,299	10,266,721	2,498,541,464
- Completed Assets	237,472,877	49,094,840	2,006,458,954	-	31,321,810	36,637,299	10,266,721	2,371,252,501
- Under Construction	-	-	127,288,963	-	-	-	-	127,288,963
Accumulated Impairment Losses	-	-	-	-	575,096	(575,096)	-	0
Accumulated Depreciation:	-	5,881,603	(422,386,356)	-	(20,800,283)	(25,809,354)	(7,897,593)	(471,011,983)
- Cost	-	5,881,603	(422,386,356)	-	(20,800,283)	(25,809,354)	(7,897,593)	(471,011,983)
- Revaluation	-	-	-	-	-	-	-	-
Acquisition of Assets	-	-	-	-	-	-	-	-
- Cost	-	(444,183)	-	-	2,089,742	-	4,490,394	6,135,952
- Capital Under Construction	-	3,565,330	46,913,737	-	-	-	-	50,479,067
- Revaluation	-	-	-	-	-	-	-	-
Increases/Decreases in Revaluation	-	-	-	-	-	-	-	-
Depreciation:	-	(6,613,458)	(58,016,256)	-	(4,749,227)	-	(1,625,707)	(71,004,648)
- Based on Cost	-	(6,613,458)	(58,016,256)	-	(4,749,227)	-	(1,625,707)	(71,004,648)
- Based on Revaluation	-	-	-	-	-	-	-	-
Carrying value of Disposals:	-	-	(34,254)	-	(1,352,206)	-	(629,989)	(2,016,448)
- Cost	-	-	(56,726)	-	(9,100,241)	-	(6,721,919)	(15,878,886)
- Accumulated Depreciation	-	-	22,472	-	7,748,035	-	6,091,931	13,862,438
- Based on Cost	-	-	22,472	-	7,748,035	-	6,091,931	13,862,438
- Based on Revaluation	-	-	-	-	-	-	-	-
Impairment Losses	-	-	-	-	(967,177)	-	-	(967,177)
Capital under Construction - Completed	-	(3,565,330)	(98,264,124)	-	-	-	-	(101,829,454)
Other Movements	-	3,565,330	98,264,123	-	-	-	-	101,829,453
- Cost	-	3,565,330	98,264,123	-	-	-	-	101,829,453
<b>Carrying values at 30 June 2017</b>	<b>237,472,877</b>	<b>51,484,132</b>	<b>1,700,224,788</b>	-	<b>6,117,755</b>	<b>10,252,849</b>	<b>4,603,826</b>	<b>2,010,156,227</b>
Cost	237,472,877	52,215,987	2,180,604,928	-	24,311,311	36,637,299	8,035,195	2,539,277,597
- Completed Assets	237,472,877	52,215,987	2,104,666,351	-	24,311,311	36,637,299	8,035,195	2,463,339,020
- Under Construction	-	-	75,938,577	-	-	-	-	75,938,577
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	(392,081)	(575,096)	-	(967,177)
Accumulated Depreciation:	-	(731,855)	(480,380,140)	-	(17,801,475)	(25,809,354)	(3,431,369)	(528,154,193)
- Cost	-	(731,855)	(480,380,140)	-	(17,801,475)	(25,809,354)	(3,431,369)	(528,154,193)
- Revaluation	-	-	-	-	-	-	-	-

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>9 PROPERTY, PLANT AND EQUIPMENT (Continued)</b>		
<b>9.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use</b>		
There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.		
<b>9.2 Carrying Amount of Property, Plant and Equipment retired from active use and not classified as a Discontinued Operation</b>		
No Property, Plant and Equipment were retired from active use and not classified as a Discontinued Operation during the financial year.		
<b>9.3 Assets pledged as security</b>		
Erf 13 (Value - R166 000.00 of Kouga Municipality in Patensie is being held as security by ABSA Bank (Pty) Ltd.		
<b>9.4 Impairment of Property, Plant and Equipment</b>		
No impairment losses have been recognised on Property, Plant and Equipment of the municipality at the reporting date.		
<b>9.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed</b>		
There was changes in the estimated useful lives of various assets of the municipality for the financial year. Refer to Note 43 for additional detail.		
<b>9.6 Land and Buildings carried at Fair Value</b>		
The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.		
<b>9.7 Delayed Projects</b>		
No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.		
<b>9.8 Compensation received for Losses</b>		
Compensation, included in Operating Surplus, was received from the municipality's insurers for Property, Plant and Equipment lost during the year:		
Compensation received from insurers	751,380	2,208,211
Carrying value of lost assets	(632,170)	(767,834)
<b>Surplus / (Deficit) on Compensation received for Lost PPE</b>	<b>119,209</b>	<b>1,440,377</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>9.9 Expenditure incurred to repair and maintain</b>		
The following specific costs included in the amount of repairs and maintenance were incurred by municipality during the reporting period:		
Capital Spares	9,649	3,591,144
Electrical Infrastructure	6,030,364	11,694,137
Roads Infrastructure	4,749,701	5,037,705
Sanitation Infrastructure	2,567,132	1,173,348
Storm water Infrastructure	1,421,018	-
Water Supply Infrastructure	2,554,147	346,153
Biological or Cultivated Assets	78,844	-
Community Assets	1,944,922	-
Machinery and Equipment	47,862	10,242,292
Other Assets - Buildings	1,037,424	1,115,481
Transport Assets	7,798,372	-
	<b>28,239,435</b>	<b>33,200,259</b>

**10 INTANGIBLE ASSETS**

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	<b>301,768</b>	<b>62,224</b>
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The movement in Intangible Assets is reconciled as follows:

<b>Carrying values at 01 July</b>	<b>62,225</b>	<b>146,585</b>
Cost	190,905	592,899
Work-in-Progress	-	-
Accumulated Amortisation	(128,680)	(446,314)
Acquisitions:	385,000	-
Purchased	-	-
Work-in-Progress	385,000	-
Amortisation:	(145,456)	(42,386)
Disposals:	-	(41,974)
At Cost	-	(401,994)
At Accumulated Amortisation	-	360,020
Transfers:	-	-
At Cost	385,000	-
Work-in-Progress	(385,000)	-
<b>Carrying values at 30 June</b>	<b>301,769</b>	<b>62,225</b>
Cost	575,905	190,905
Work-in-Progress	-	-
Accumulated Amortisation	(274,136)	(128,680)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 32).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**10.1 Intangible Assets with Indefinite Useful Lives**

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

**10.2 Impairment of Intangible Assets**

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

**10.3 Work-in-Progress**

The municipality had no capital projects for Intangible Assets which were not completed at year-end.

**10.4 Delayed Projects**

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

**11 INVESTMENT PROPERTY**

At Cost less Accumulated Depreciation

2018 R	2017 R
<b>283,612,244</b>	<b>285,199,244</b>

The movement in Investment Property is reconciled as follows:

**Carrying values at 1 July**

Cost	<b>285,199,244</b>	<b>285,199,244</b>
Accumulated Impairment Losses	-	-

Impairment Losses during the Year	(1,587,000)	-
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**Carrying values at 30 June**

Cost	<b>283,612,244</b>	<b>285,199,244</b>
Accumulated Impairment	(1,587,000)	-

**Estimated Fair Value of Investment Property at 30 June**

<b>283,612,244</b>	<b>285,199,244</b>
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Note: Erf 13 (Value - R166 000.00 of Kouga Municipality in Patensie is being held as security by ABSA Bank (Pty) Ltd.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

**11.1 Investment Property carried at Fair Value**

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

**11.2 Impairment of Investment Property**

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

**11.3 Work-in-Progress**

The municipality had no capital projects for Investment Property which were not completed at year-end.

**11.4 Delayed Projects**

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>12 LONG-TERM RECEIVABLES</b>		
Staff Related Long Term Receivables	19,000	67,751
Total Long Term Receivables	19,000	67,751
Less: Current Portion transferred to Current Receivables:-	3,000	3,000
Employee Benefits	-	-
Staff Related Long Term Receivables	3,000	3,000
Staff Related Long Term Receivables	16,000	64,751
<b>Non-Current Portion of Long Term Receivables</b>	<b>16,000</b>	<b>64,751</b>

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values.

**13 CONSUMER DEPOSITS**

Electricity	9,640,934	8,842,416
Water	1,557,171	1,430,675
Other Deposits	4,042,764	3,293,933
Building Plans	726,792	-
Rental Properties	3,315,972	3,293,933
<b>Total Consumer Deposits</b>	<b>15,240,869</b>	<b>13,567,024</b>

**Consumer Deposits - Electricity and Water**

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

**Other Deposits**

Other Deposits relates to deposits for Building Plans

No interest is paid on Consumer Deposits held.

**14 PROVISIONS**

Performance Bonus	1,220,196	898,174
Other Provisions and Impairment	-	-
Current Portion of Employee Benefit Liabilities (See Note 18):	5,086,000	4,382,000
Post-retirement Medical Aid Benefits Liability	3,083,000	2,776,000
Long-term Service Liability	2,003,000	1,606,000
Current Portion of Non-Current Provisions (See Note 19):	18,198,414	17,364,095
Decommissioning, Restoration and Similar Liabilities: Landfill Sites	2,670,650	2,541,534
Decommissioning, Restoration and Similar Liabilities: Non-specific	500,000	200,000
Ex-gratia Pension	61,000	61,000
Leave	14,966,764	14,561,561
<b>Total Provisions</b>	<b>24,504,611</b>	<b>22,644,269</b>

The movement in provisions is reconciled as follows:

**Current Provisions:**

**Performance Bonus:**

Opening Balance	898,174	678,671
Increases	322,022	219,503
<b>Balance at end of year</b>	<b>1,220,196</b>	<b>898,174</b>

**Performance Bonuses** accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
	<b>Medical Aid</b>	<b>Long-term Service</b>
	<b>R</b>	<b>R</b>
<b>30 June 2018</b>		
Opening Balance	2,776,000	1,606,000
Current service cost	3,083,000	2,003,000
Actual employer benefit payments	(2,776,000)	(1,606,000)
Actuarial loss/ (gain) recognised in the year	-	-
<b>Balance at end of year</b>	<b><u>3,083,000</u></b>	<b><u>2,003,000</u></b>
	<b>Medical Aid</b>	<b>Long-term Service</b>
	<b>R</b>	<b>R</b>
<b>30 June 2017</b>		
Opening Balance	2,312,000	1,438,000
Current service cost	2,776,000	1,606,000
Actual employer benefit payments	(2,312,000)	(1,438,000)
<b>Balance at end of year</b>	<b><u>2,776,000</u></b>	<b><u>1,606,000</u></b>
<b>Current Portion of Non-Current Provisions:</b>		
<b>Staff Benefit Provisions:</b>		
	<b>Leave Provision</b>	<b>Ex-gratia Pension</b>
	<b>R</b>	<b>R</b>
<b>30 June 2018</b>		
Opening Balance	14,561,561	61,000
Increases	405,203	61,000
Payments Made	-	-
Other Reductions	-	(61,000)
<b>Balance at end of year</b>	<b><u>14,966,764</u></b>	<b><u>61,000</u></b>
	<b>Leave Provision</b>	<b>Ex-gratia Pension</b>
	<b>R</b>	<b>R</b>
<b>30 June 2017</b>		
Opening Balance	14,293,355	95,000
Increases	268,206	61,000
Other Reductions	-	(95,000)
<b>Balance at end of year</b>	<b><u>14,561,561</u></b>	<b><u>61,000</u></b>
<b>Other Operational Provisions:</b>		
	<b>Decommission-ing of Landfill Sites</b>	<b>Environmental Clean- up</b>
	<b>R</b>	<b>R</b>
<b>30 June 2018</b>		
Opening Balance	2,541,534	200,000
Increases	2,670,650	300,000
Reversals	(2,541,534)	-
<b>Balance at end of year</b>	<b><u>2,670,650</u></b>	<b><u>500,000</u></b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
	Decommission-ing of Landfill Sites R	Environmental Clean- up R
<b>30 June 2017</b>		
Opening Balance	2,694,586	597,604
Increases	(153,052)	(397,604)
<b>Balance at end of year</b>	<b>2,541,534</b>	<b>200,000</b>

**15 PAYABLES FROM EXCHANGE TRANSACTIONS**

Advance Payments	16,129,451	14,716,787
Bonus	(86,664)	-
Other Payables	14,372,085	7,542,409
Control, Clearing and Interface Accounts	1,653,860	(60,890)
Unallocated Deposits	12,718,224	7,603,299
Retentions	2,841,657	3,098,325
Salary Related Payables	559,307	12,619,947
Trade Creditors	92,808,806	90,581,703
<b>Total Payables</b>	<b>126,624,642</b>	<b>128,559,171</b>

**16 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

<b>16.1 Conditional Grants from Government</b>	<b>6,941,508</b>	<b>6,406,753</b>
District Municipalities	257,000	257,000
National Government	65,500	348,891
Provincial Government	6,619,008	5,800,861
<b>Total Conditional Grants and Receipts</b>	<b>6,941,508</b>	<b>6,406,753</b>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 24 for the reconciliation of Grants from Government and Note 24 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

**17 LONG-TERM LIABILITIES**

<b>Long-Term Liabilities</b>	32,544,431	41,167,098
Development Bank of South Africa	30,266,608	36,734,308
Finance Lease Liability	2,277,822	4,432,790
<b>Less: Current Portion transferred to Current Liabilities:-</b>	<b>(8,944,035)</b>	<b>(8,599,901)</b>
Development Bank of South Africa	(7,179,508)	(6,444,933)
Finance Lease Liability	(1,764,527)	(2,154,968)
<b>Non-Current Portion of Long-term Liabilities</b>	<b>23,600,396</b>	<b>32,567,197</b>

**17.1 Summary of Arrangements**

The fixed term loan is over a period of 10 years was taken up with the Development Bank of Southern Africa to construct a new council Chamber and offices. In terms of the service level agreement, as amended, the loan will be repaid in 18 six -monthly instalments with the first instalment payable on 31 December 2010 at a interest rate of 10.9 %. Interest payments commenced on 30 June 2009.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

**17.2 Obligations under Borrowings**

Annuity and Bullet Loans	23,087,100	30,289,375
Current Portion transferred to Current Liabilities:-	7,179,508	6,444,933
<b>Total Borrowings</b>	<b>30,266,608</b>	<b>36,734,308</b>

**17.3 Obligations under Leases**

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2018 R	2017 R	2018 R	2017 R
<b>Amounts payable under finance leases:</b>				
Within one year	2,138,905	2,955,049	1,838,441	2,154,968
In the second to fifth years, inclusive	534,726	2,673,632	513,300	2,277,822
	2,673,631	5,628,681	2,351,741	4,432,790
Less: Future Finance Obligations	2,138,905	1,195,887	1,838,441	2,154,968
<b>Present Value of Minimum Lease Obligations</b>	<b>534,726</b>	<b>4,432,794</b>	<b>513,300</b>	<b>2,277,822</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>18 EMPLOYEE BENEFIT LIABILITIES</b>		
<b>Employee Benefit Liabilities</b>	101,386,999	96,826,000
Post-retirement Health Care Benefits Liability	86,379,999	82,973,999
Post-retirement Ex-Gratia Benefits Liability	715,000	742,000
Long Service Awards Liability	14,292,000	13,110,000
<b>Less: Current Portion of Employee Benefit Liabilities</b>	(5,086,000)	(4,382,000)
Post-retirement Health Care Benefits Liability	(3,083,000)	(2,776,000)
Post-retirement Ex-Gratia Benefits Liability	-	-
Long Service Awards Liability	(2,003,000)	(1,606,000)
<b>Non-Current Portion of Employee Benefit Liabilities</b>	<b>96,300,999</b>	<b>92,444,000</b>
<b>18.1 Post-retirement Health Care Benefits Liability</b>		
Opening balance	82,973,999	78,606,999
Interest cost	-	-
Current service cost	12,041,000	2,055,000
Actual employer benefit payments	(8,635,000)	2,312,000
Actuarial loss/ (gain) recognised in the year	-	-
Balance at end of Year	86,379,999	82,973,999
Transfer to Current Provisions	3,083,000	2,776,000
<b>Total Post-retirement Health Care Benefits Liability</b>	<b>83,296,999</b>	<b>80,197,999</b>
<p>The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.</p> <p>The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by TG Mhonde, One Pangaea Expertise and Solutions. The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.</p> <p>The members of the Post-employment Health Care Benefit Plan are made up as follows:</p>		
In-service Members (Employees)	415	406
Continuation Members (Retirees, widowers and orphans)	70	67
<b>Total Members</b>	<b>485</b>	<b>473</b>



**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
The liability in respect of past service has been estimated as follows:		
In-service Members	44,592,000	43,147,000
Continuation Members	41,787,999	39,826,999
<b>Total Liability</b>	<b><u>86,379,999</u></b>	<b><u>82,973,999</u></b>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Hosmed
- Samwumed

The Current-service Cost for the year ending 30 June 2018 is estimated to be R3 864 000, whereas the cost for the ensuing year is estimated to be R4 463 000 (30 June 2017: R7 793 000 and R8 101 000 respectively).

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount Rate	9.79%	9.93%
Health Care Cost Inflation Rate	7.63%	7.29%
Net Effective Discount Rate	2.01%	1.51%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

**Movements in the present value of the Defined Benefit Obligation were as follows:**

Opening balance	82,973,999	80,919,000
Interest cost	8,101,000	7,793,000
Current service cost	3,864,000	4,463,000
Benefits paid	(2,776,000)	(2,312,000)
Actuarial losses / (gains)	(5,783,000)	(7,889,001)

<b>Total Recognised Benefit Liability</b>	<b><u>86,379,999</u></b>	<b><u>82,973,999</u></b>
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**The amounts recognised in the Statement of Financial Position are as follows:**

Present value of fund obligations	<u>86,379,999</u>	<u>82,973,999</u>
Unfunded Accrued Liability	<u>86,379,999</u>	<u>82,973,999</u>

<b>Total Benefit Liability</b>	<b><u>86,379,999</u></b>	<b><u>82,973,999</u></b>
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**The history of fair values are as follows:**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Present Value of Defined Benefit Obligation	86,379,999	82,974,000	80,919,000	75,054,000	69,141,000
<b>Deficit</b>	<b><u>86,379,999</u></b>	<b><u>82,974,000</u></b>	<b><u>80,919,000</u></b>	<b><u>75,054,000</u></b>	<b><u>69,141,000</u></b>

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

**Increase:**

Effect on the aggregate of the current service cost and the interest cost	2,396,000	2,401,000
Effect on the defined benefit obligation	14,754,000	14,427,000

**Decrease:**

Effect on the aggregate of the current service cost and the interest cost	(1,908,000)	(1,897,000)
Effect on the defined benefit obligation	(11,912,000)	(11,603,000)

The municipality expects to make a contribution of R3,083,000 (2017: R2,776,000) to the Defined Benefit Plans during the next financial year.

Refer to Note 49, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
<b>18.2 Post-retirement Ex-Gratia Benefits Liability</b>		
Opening balance	803,000	829,000
Interest cost	73,000	-
Current service cost	61,000	(108,000)
Actual employer benefit payments	(61,000)	82,000
Actuarial loss/ (gain) recognised in the year	(100,000)	-
Balance at end of Year	<u>776,000</u>	<u>803,000</u>
Transfer to Current Provisions	(61,000)	(61,000)
<b>Total Post-retirement Ex-Gratia Benefits Liability</b>	<b><u>715,000</u></b>	<b><u>742,000</u></b>

The municipality provides certain post - retirement pension benefits to certain retired employees of the municipality. According to the rules of the pension fund, with which the municipality is associated, a member (who is on the current Conditions of Service) on retirement, is entitled to certain pension benefits in which case the municipality is liable for pension payments to retired members for the remainder of their lives.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by TG Mhonde, One Pangaea Expertise and Solutions Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount Rate	9.50%	9.43%
Health Care Cost Inflation Rate	6.51%	6.76%
Net Effective Discount Rate	2.81%	2.50%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

**Movements in the present value of the Defined Benefit Obligation were as follows:**

Opening balance	803,000	924,000
Interest cost	73,000	82,000
Benefits paid	(61,000)	(95,000)
Actuarial losses / (gains)	(39,000)	(108,000)

<b>Total Recognised Benefit Liability</b>	<b><u>776,000</u></b>	<b><u>803,000</u></b>
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**The amounts recognised in the Statement of Financial Position are as follows:**

Present value of fund obligations	776,000	803,000
Unfunded Accrued Liability	<u>776,000</u>	<u>803,000</u>
<b>Total Benefit Liability</b>	<b><u>776,000</u></b>	<b><u>803,000</u></b>

**The amounts recognised in the Statement of Financial Performance are as follows:**

Current service cost	73,000	82,000
Actuarial losses / (gains)	(39,000)	(108,000)

<b>Total Post-retirement Benefit included in Employee Related Costs (Note )</b>	<b><u>34,000</u></b>	<b><u>(26,000)</u></b>
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**The major categories of plan assets, and the expected rate of return at the balance sheet date for each category, are as follows:**

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The management's assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was R0,720 million (: R0,354 million).

The plan assets include ordinary shares of International GAAP Holdings Limited with a fair value of R0,38 million (: R0,252 million) and property occupied by a subsidiary of International GAAP Holdings Limited with a fair value of R0,62 million (: R0,62 million).

**The history of experienced adjustments is as follows:**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Present Value of Defined Benefit Obligation	776,000	803,000	924,000	912,000	195,000
Fair Value of Plan Assets	-	-	-	-	-
<b>Deficit</b>	<b><u>776,000</u></b>	<b><u>803,000</u></b>	<b><u>924,000</u></b>	<b><u>912,000</u></b>	<b><u>195,000</u></b>
Experienced adjustments on Plan Liabilities	(1,189)	2,356,040	41,820	6,739,754	(1,526,436)
Experienced adjustments on Plan Assets	-	-	-	-	-

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
<b>Increase:</b>		
Effect on the aggregate of the current service cost and the interest cost	8,000	8,000
Effect on the defined benefit obligation	90,000	90,000
<b>Decrease:</b>		
Effect on the aggregate of the current service cost and the interest cost	(7,000)	(7,000)
Effect on the defined benefit obligation	(77,000)	(77,000)

The municipality expects to make a contribution of R9 986 213 (2017: R73,000) to the Defined Benefit Plans during the next financial year.

Refer to Note , "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

**18.3 Long Service Awards Liability**

Opening Balance	13,110,000	11,442,000
Increases	2,788,000	1,668,000
Payments Made	(3,212,000)	-
Reversals	1,606,000	-
Balance at end of Year	14,292,000	13,110,000
Transfer to Current Provisions	(2,003,000)	(1,606,000)
<b>Total Long Service Awards Liability</b>	<b>12,289,000</b>	<b>11,504,000</b>

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter to 45 years, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by TG Mhonde, One Pangae Expertise and Solutions. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 833 (2017: 818) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2018 is estimated to be R 1 114 000, whereas the cost for the ensuing year is estimated to be, 30 June 2017: R1 130 000 and R1 066 000 respectively).

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount Rate	8.57%	8.43%
Cost Inflation Rate	5.31%	5.24%
Net Effective Discount Rate	2.13%	2.06%
Expected Rate of Salary Increase	6.31%	6.24%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>Movements in the present value of the Defined Benefit Obligation were as follows:</b>		
Opening Balance	14,716,000	13,048,000
Increases	2,788,000	1,668,000
Payments Made	(3,212,000)	-
Reversals	1,606,000	-

<b>Total Recognised Benefit Liability</b>	<b>15,898,000</b>	<b>14,716,000</b>
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**The amounts recognised in the Statement of Financial Position are as follows:**

Present value of fund obligations	15,898,000	14,716,000
	<u>15,898,000</u>	<u>14,716,000</u>
Present value of unfunded obligations	-	-
	<u>15,898,000</u>	<u>14,716,000</u>
Unfunded Accrued Liability	15,898,000	14,716,000
	<u>15,898,000</u>	<u>14,716,000</u>
<b>Total Benefit Liability</b>	<b>15,898,000</b>	<b>14,716,000</b>

**The amounts recognised in the Statement of Financial Performance are as follows:**

Current service cost	2,788,000	1,668,000
Interest cost	-	-
Expected return on reimbursement rights	-	-
Actuarial losses / (gains)	-	-

<b>Total Post-retirement Benefit included in Employee Related Costs (Note 30)</b>	<b>2,788,000</b>	<b>1,668,000</b>
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**The history of experienced adjustments is as follows:**

	2018 R	2017 R	2016 R	2015 R	2014 R
Present Value of Defined Benefit Obligation	15,898,000	13,110,000	13,048,000	13,415,000	12,825,000
<b>Deficit</b>	<b>15,898,000</b>	<b>13,110,000</b>	<b>13,048,000</b>	<b>13,415,000</b>	<b>12,825,000</b>

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

**Increase:**

Effect on the aggregate of the current service cost and the interest cost	135,800	11,000
Effect on the defined benefit obligation	674,285	719,000

**Decrease:**

Effect on the aggregate of the current service cost and the interest cost	(121,700)	13,000
Effect on the defined benefit obligation	(611,740)	801,000

The municipality expects to make a contribution of R??? (2017: R2,788,000) to the defined benefit plans during the next financial year.

**19 NON-CURRENT PROVISIONS**

Decommissioning, Restoration and Similar Liabilities: Landfill Sites	65,627,734	62,413,610
Environmental Cleanup	52,200	52,200
<b>Total Non-current Provisions</b>	<b>65,679,934</b>	<b>62,465,810</b>

**The movement in Non-current Provisions are reconciled as follows:**

**Other Operational Provisions:**

	Decommission-ing of Landfill Sites R	Environmental Cleanup R
<b>30 June 2018</b>		
Opening Balance	-	52,200
Increases	3,214,124	-
<b>Balance at end of year</b>	<b>65,627,734</b>	<b>52,200</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

			2018 R	2017 R
			Decommission-ing of Landfill Sites R	Environmental Cleanup R
<b>30 June 2017</b>				
Opening Balance	-	-	58,981,822	52,200
Increases	-	-	3,431,788	-
<b>Balance at end of year</b>			<b>62,413,610</b>	<b>52,200</b>

**20 ACCUMULATED SURPLUS**

Accumulated Surplus / (Deficit) due to the results of Operations	2,101,010,573	2,102,468,665
<b>Total Accumulated Surplus</b>	<b>2,101,010,573</b>	<b>2,102,468,665</b>

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

**21 PROPERTY RATES**

	Actual Levies July 2018 R000's	July 2017 R000's
Property Rates Levies	160,671,150	148,074,778
<b>Total Property Rates</b>	<b>160,671,150</b>	<b>148,074,778</b>

**21.1 Calculation of Cash Flow:**

Property Rates Income	160,671,150	148,074,778
Opening Balance of Debtors: Assessment Rates	35,163,570	35,572,295
Closing Balance of Debtors: Assessment Rates	(35,894,635)	(35,163,570)
Amounts written-off as uncollectable	-	(4,829,070)
<b>Total Receipts for Property Rates</b>	<b>159,940,086</b>	<b>143,654,433</b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2013.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0,0072 c/R (2016/17: 0,00668052 c/R)

Business Properties: 0,0075 c/R (2016/17: 0,00694774 c/R)

Agricultural Properties: 0,0018 c/R (2016/17: 0,00167013 c/R)

A Rebate of R15,000 is received on all residential properties, private towns receives an additional 20% on property valuation and equitable share recipients receives an additional R85,000 rebate on property value.

**22 FINES, PENALTIES AND FORFEITS**

Traffic Fines	34,359,038	10,155,948
Municipal	3,447,452	2,019,949
Service Provider	30,911,585	8,135,999
Other Fines	473,434	444,526
Building	455,021	395,056
Law Enforcement	-	48,942
Overdue Books Fine	3,413	528
Pound Fees	15,000	-
<b>Total Fines, Penalties and Forfeits</b>	<b>34,832,471</b>	<b>10,600,474</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>23 LICENCES AND PERMITS</b>		
	<b>2018 R</b>	<b>2017 R</b>
Boat	3,887,761	3,365,186
Health Certificates	9,315	-
Road and Transport	9,507,011	4,805,046
Drivers Licence Application/Duplicate Drivers Licences	2,893,431	1,042,502
Drivers Licence Certificate	708,288	-
Learners Certificate	886,274	878,226
Motor Vehicle Licence	4,384,152	2,743,849
Operators and Public Drivers Permits	634,866	140,469
Trading	142,767	211,538
<b>Total Licences and Permits</b>	<b>13,546,854</b>	<b>8,381,770</b>
<b>24 TRANSFERS AND SUBSIDIES RECEIVED</b>		
<b>Capital Grants</b>	35,492,709	43,724,647
Monetary Allocations	35,492,709	43,724,647
<b>Operational Grants</b>	108,897,379	100,584,184
Monetary Allocations	108,897,379	100,584,184
<b>Total Government Grants and Subsidies</b>	<b>144,390,088</b>	<b>144,308,831</b>
<b>24.1 Capital Grants</b>		
	<b>Monetary Allocations</b>	
	<b>2018</b>	<b>2017</b>
District Municipalities	3,340,380	-
National Governments	30,102,329	43,724,647
Provincial Government	2,050,000	-
<b>Total Capital Grants Received</b>	<b>35,492,709</b>	<b>43,724,647</b>
<b>24.2 Operational Grants</b>		
	<b>Monetary Allocations</b>	
	<b>2018</b>	<b>2017</b>
District Municipalities	2,353,315	3,677,916
National Governments	3,871,671	3,482,000
National Revenue Fund	102,637,393	91,622,022
Provincial Government	35,000	1,798,246
Higher Educational Institutions	-	4,000
<b>Total Operational Grants Received</b>	<b>108,897,379</b>	<b>100,584,184</b>
<b>24.3 Calculation of Cash Flow:</b>		
Government Grants and Subsidies Income	144,390,088	144,308,831
Opening Balance of Unspent Government Grants	(6,406,753)	(7,841,525)
Closing Balance of Unspent Government Grants	6,941,508	6,406,753
<b>Total Receipts for Government Grants and Subsidies</b>	<b>144,924,843</b>	<b>142,874,058</b>
<b>24.4 Reconciliation per Grant Source</b>		
<b>24.4.1 National Governments</b>		
Balance unspent at beginning of year	348,892	2,320,536
Current year receipts - included in Public Health vote	32,974,000	47,939,618
Conditions met - transferred to Revenue	(33,257,392)	(49,911,263)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	65,500	348,891
<b>24.4.2 Provincial Government</b>		
Balance unspent at beginning of year	6,120,831	5,263,989
Current year receipts - included in Public Health vote	853,147	2,426,025
Conditions met - transferred to Revenue	(354,970)	(1,889,152)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	6,619,008	5,800,861

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>24.5 Conditional Grants include:</b>		
<b>24.6 National: EPWP Grant</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1,000,000	1,057,000
Conditions met - transferred to Revenue: Operating Expenses	(1,000,000)	(1,057,000)
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Expanded Public Works Programme Grant was allocated to the municipality for environmental projects. No funds has been withheld.

**24.7 National: FMG Grant**

Balance unspent at beginning of year	-	1,129,551
Current year receipts	1,700,000	1,625,000
Conditions met - transferred to Revenue: Operating Expenses	(1,700,000)	(2,754,551)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. .  
An amount of R329 551 (R2016: R0) was offset against the equitable share allocation due to underspending of grants by the municipality.

**24.8 National: MIG Funds**

Balance unspent at beginning of year	-	-
Current year receipts	27,274,000	37,326,000
Conditions met - transferred to Revenue: Operating Expenses	-	(1,516,300)
Conditions met - transferred to Revenue: Capital Expenses	(27,274,000)	(35,809,700)
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld. R5,000,000 was withheld during the 2017/18 financial year.

**24.9 National: MSIG Funds**

Balance unspent at beginning of year	-	913,471
Current year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(913,471)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.  
An amount of R913 471 (R2016: R0) was offset against the equitable share allocation due to underspending of grants by the municipality.

**24.10 National: Department of economic development**

Balance unspent at beginning of year	65,500	65,500
Conditions still to be met - transferred to Liabilities (see Note 16)	65,500	65,500

No funds have been withheld.

**24.11 Provincial Government: Disaster**

Balance unspent at beginning of year	-	-
Current year receipts	1,090,000	-
Conditions met - transferred to Revenue: Operating Expenses	(1,090,000)	-
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

No funds has been withheld.

**24.12 National: Department Water Affairs (DWA) - Other Capital Projects**

Balance unspent at beginning of year	-	-
Current year receipts	-	1,931,618
Conditions met - transferred to Revenue: Operating Expenses	-	(1,931,618)
Conditions still to be met - transferred to Liabilities (see Note 16)	-	-

This grant was received for the maintenance of water schemes within the district. No funds have been withheld.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>24.13 National: Department Energy</b>		
Balance unspent at beginning of year	283,392	212,015
Current year receipts	4,000,000	6,000,000
Conditions met - transferred to Revenue: Operating Expenses	(4,000,000)	(5,928,623)
Other Adjustments/Refunds	(283,392)	-
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>-</u>	<u>283,392</u>
Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds have been withheld.		
<b>24.14 Local Government: SBDM</b>		
Balance unspent at beginning of year	157,000	157,000
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>157,000</u>	<u>157,000</u>
This grant was allocated to assist the municipality to set up a Call Centre. No funds have been withheld.		
<b>24.15 Provincial: Department Human Settlement (Houses)</b>		
Balance unspent at beginning of year	6,085,832	5,228,989
Current year receipts	-	2,426,025
Conditions met - transferred to Revenue: Capital Expenses	-	(1,569,182)
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>6,085,832</u>	<u>6,085,832</u>
This grant is for the building of low cost housing. The municipality is only the agent of the department of human settlements for the construction of low cost houses. No funds have been withheld.		
<b>24.16 Provincial: Department Provincial Local Government and Housing (DPLG&amp;H)</b>		
Balance unspent at beginning of year	-	-
Current year receipts	-	357,300
Conditions met - transferred to Revenue: Operating Expenses	-	(357,300)
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>-</u>	<u>-</u>
<b>24.17 Other Government Grants: VUNA</b>		
Balance unspent at beginning of year	-	35,000
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>-</u>	<u>35,000</u>
No funds has been withheld.		
<b>25 SERVICE CHARGES</b>		
Sale of Electricity	216,315,650	205,971,335
Sale of Water	65,281,754	52,569,477
Refuse Removal	43,373,455	40,371,781
Sewerage and Sanitation Charges	38,377,437	37,052,878
<b>Total Service Charges</b>	<u>363,348,296</u>	<u>335,965,472</u>
<b>25.1 Calculation of Cash Flow:</b>		
Service Charges Income	363,348,296	335,965,472
Opening Balance of Debtors: Service Charges	124,435,221	121,544,273
Closing Balance of Debtors: Service Charges	(144,779,143)	(124,435,221)
Amounts written-off as uncollectable	(11,345,215)	(6,125,555)
<b>Total Receipts for Service Charges</b>	<u>331,659,159</u>	<u>326,948,968</u>
The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		



**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>26 SALES OF GOODS AND RENDERING OF SERVICES</b>		
Advertisements	-	28,700
Application Fees for Land Usage	72,779	30,576
Building Plan Approval	2,159,113	1,676,306
Building Plan Clause Levy	-	1,748,082
Camping Fees	2,306,098	2,161,851
Cemetery and Burial	391,669	431,045
Cleaning and Removal	1,704	-
Encroachment Fees	104,358	1,371
Fire Services	8,481	-
Health Services	-	4,371
Legal Fees	1,635,154	3,744
Photocopies and Faxes	83,484	16,869
Removal of Restrictions	10,946	40,540
Sale of Goods	1,622,317	167,031
Town Planning and Servitudes	299,631	410,223
Transport Fees	-	658
Valuation Services	138,641	138,794
<b>Total Sales of Goods and Rendering of Services</b>	<b>8,834,374</b>	<b>6,860,161</b>
<b>27 RENTAL FROM FIXED ASSETS</b>		
<b>Straight-lined Operating Lease Revenue</b>		
Investment Property	-	-
Other Fixed Assets	614,198	1,505,650
Property Plant and Equipment	614,198	1,505,650
<b>Total Rental of Facilities and Equipment</b>	<b>614,198</b>	<b>1,505,650</b>
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
<b>28 INTEREST, DIVIDENDS AND RENT ON LAND EARNED</b>		
<b>Non-exchange Receivables:</b>		
Outstanding Billing Debtors	1,125,936	1,511,366
<b>Total Non-exchange Interest Earned</b>	<b>1,125,936</b>	<b>1,511,366</b>
<b>External Investments:</b>		
Bank Account	1,290,623	1,086,277
Investments	7,461,125	6,689,851
	<b>8,751,748</b>	<b>7,776,128</b>
<b>Outstanding Exchange Receivables:</b>		
Outstanding Billing Debtors	5,658,240	6,632,968
	<b>5,658,240</b>	<b>6,632,968</b>
<b>Total Exchange Interest Earned</b>	<b>14,409,988</b>	<b>14,409,095</b>
<b>Total Interest, Dividends And Rent On Land Earned</b>	<b>15,535,924.15</b>	<b>15,920,461.85</b>
<b>28.1 Calculation of Cash Flow:</b>		
Interest on Bank Accounts	1,290,623	1,086,277
Interest on Investments	7,461,125	6,689,851
<b>Total Receipts for Interest Received</b>	<b>8,751,748</b>	<b>7,776,128</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

		2018 R	2017 R
<b>29 OPERATIONAL REVENUE</b>			
Administrative Handling Fees		-	2,931,820
Commission		423,677	401,842
Inspection Fees		-	12,834
Insurance Refund		747,758	2,208,211
Staff Recoveries		95,945	15,968
<b>Total Operational Revenue</b>		<b>1,267,381</b>	<b>5,570,675</b>
<b>29.1 Calculation of Cash Flow:</b>			
Income from Operational Revenue	Note 29	1,267,381	5,570,675
Minus: Insurance Receipts	Note 29	(747,758)	(2,208,211)
Income from Rental from Fixed Assets	Note 27	614,198	1,505,650
Income from Sales of Goods and Rendering of Services	Note 26	8,834,374	6,860,161
Income from Licences and Permits	Note 23	13,546,854	8,381,770
Income from Fines, Penalties and Forfeits	Note 22	34,832,471	10,600,474
Opening Balance of Debtors: Non-exchange Transactions	Note 4	60,262,631	54,658,617
Opening Balance of Debtors: Assessment Rates	Note 4	(35,163,570)	(35,572,295)
Closing Balance of Debtors: Non-exchange Transactions	Note 4	(71,534,437)	(60,262,631)
Closing Balance of Debtors: Assessment Rates	Note 4	35,894,635	35,163,570
Reversal of Fines Debtors	Note 5	(25,099,061)	-
Opening Balance of Operating Lease Receivables	Note 7	281,727	278,803
Closing Balance of Operating Lease Receivables	Note 7	(269,124)	(281,727)
Opening Balance of Current Portion of Long-term Receivables	Note 8	3,000	3,000
Closing Balance of Current Portion of Long-term Receivables	Note 8	(3,000)	(3,000)
Opening Balance of Consumer Deposits	Note 14	(13,567,024)	(12,322,617)
Closing Balance of Consumer Deposits	Note 14	15,240,869	13,567,024
<b>Total Receipts for Other Revenue</b>		<b>24,394,165</b>	<b>25,939,264</b>
<b>30 EMPLOYEE RELATED COSTS</b>			
Salaries and Wages			
Basic		145,973,947	139,844,370
Long Service Awards		825,217	725,281
Bonusses		324,579	-
Leave Payments		2,313,551	1,405,176
Overtime		20,434,525	11,958,037
Allowances			
Acting and Post Related Allowances		1,156,173	4,186,870
Bonus Allowance		11,300,437	10,680,831
Cellular and Telephone		26,059	-
Housing Benefits		1,838,206	1,899,062
Standby Allowance		4,733,327	3,988,458
Travel or Motor Vehicle		7,247,120	7,472,515
Uniform/Special/Protective Clothing		-	(3,300)
Social Contributions			
Bargaining Council		1,676,605	76,308
Group Life Insurance		5,053,315	4,647,688
Medical		13,472,307	14,228,116
Pension		23,404,067	22,175,085
Unemployment Insurance		1,436,555	1,299,138
Post-retirement Benefit			
Current Service Cost		3,864,000	-
Interest Cost		8,101,000	-
Actuarial (Gains) and Losses		(5,783,000)	-
Past Service Cost		(2,803,000)	-
Long Term Service Awards		1,182,000	-
<b>Total Employee Related Costs</b>		<b>245,776,991</b>	<b>224,583,634</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

		<b>2018</b>	<b>2017</b>
		<b>R</b>	<b>R</b>
<b>30.1 Calculation of Cash Flow:</b>			
Employee Related Costs Expenditure		245,776,991	224,583,634
Opening Balance of Current Employee Benefit Liabilities	Note 14	4,382,000	3,387,190
Closing Balance of Current Employee Benefit Liabilities	Note 14	(5,086,000)	(4,382,000)
Opening Balance of Current Staff Benefit Provisions	Note 14	14,622,561	18,722,027
Closing Balance of Current Staff Benefit Provisions	Note 14	(15,027,764)	(19,902,735)
Opening Balance of Non-current Employee Benefit Liabilities	Note 18	92,444,000	91,046,000
Closing Balance of Non-current Employee Benefit Liabilities	Note 18	(96,300,999)	(92,444,000)
Movement in Performance Bonus Provision	Note 14	(322,022)	(219,503)
<b>Total Payments for Employee Related Costs</b>		<b>240,488,766</b>	<b>220,790,613</b>
No advances were made to employees. Loans to employees are set out in Note 12.			
<b>Remuneration of Section 57 Employees:</b>			
<i><b>Remuneration of the Municipal Manager</b></i>			
Annual Remuneration		1,299,280	1,085,650
Performance Bonus		-	75,128
Car and Other Allowances		97,938	159,172
Leave Encashment - Contract Expired		-	88,956
Company Contributions to UIF, Medical and Pension Funds		22,532	17,885
<b>Total</b>		<b>1,419,749</b>	<b>1,426,791</b>
<i><b>Remuneration of the Chief Financial Officer</b></i>			
Annual Remuneration		1,217,437	1,058,333
Performance Bonus		-	33,367
Car and Other Allowances		109,000	114,250
Company Contributions to UIF, Medical and Pension Funds		19,482	16,402
<b>Total</b>		<b>1,345,919</b>	<b>1,222,352</b>
<i><b>Remuneration of the Director: Community Services - N Machalesi</b></i>			
Annual Remuneration		241,400	936,350
Car and Other Allowances		45,000	144,000
Company Contributions to UIF, Medical and Pension Funds		5,539	15,392
<b>Total</b>		<b>291,939</b>	<b>1,095,742</b>
<i><b>Remuneration of the Director: Community Services - N Machalesi</b></i>			
Acting Allowance		74,799	-
		<b>74,799</b>	<b>-</b>
<i><b>Remuneration of the Acting Director: Community Services - G Louw</b></i>			
Annual Remuneration		326,055	-
Car and Other Allowances		2,557	-
Company Contributions to UIF, Medical and Pension Funds		7,211	-
Leave Encashment-Contract expired		13,322	-
<b>Total</b>		<b>349,145</b>	<b>-</b>
<i><b>Remuneration of Director: Infrastructure and Engineering - V Felton</b></i>			
Annual Remuneration		1,044,161	984,350
Car and Other Allowances		123,784	96,630
Company Contributions to UIF, Medical and Pension Funds		16,639	14,118
<b>Total</b>		<b>1,184,584</b>	<b>1,095,097</b>
<i><b>Remuneration of Director: Corporate Services - K Moodley</b></i>			
Annual Remuneration		887,883	984,350
Performance Bonus		-	178,200
Car and Other Allowances		118,491	113,796
Arbitration Award		-	264,387
Company Contributions to UIF, Medical and Pension Funds		29,559	15,488
<b>Total</b>		<b>1,035,934</b>	<b>1,556,221</b>
<i><b>Remuneration of Director: Planning, Development and Tourism - F Mabusela</b></i>			
Annual Remuneration		143,246	984,350
Bonus		-	-
Performance Bonus		-	129,869
Car and Other Allowances		34,000	100,731
Company Contributions to UIF, Medical and Pension Funds		18,392	15,488
<b>Total</b>		<b>195,638</b>	<b>1,230,438</b>
<b>Summary of Remuneration of Section 57 Employees:</b>			
All Managers		5,897,706	7,626,642
<b>Total Remuneration of Section 57 Employees</b>		<b>5,897,706</b>	<b>7,626,642</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>31 REMUNERATION OF COUNCILLORS</b>		
Executive Mayor	604,077	590,296
Speaker	495,847	472,235
Executive Committee Members	2,724,077	2,656,332
Total for All Other Councillors	8,241,882	7,382,350
	<b>12,065,883</b>	<b>11,101,213</b>
<i>In-kind Benefits</i>		
The Executive Mayor, Speaker and all the Mayoral committee members are full-time. The Mayor is provided with secretarial support and an office at the cost of the municipality.		
<b>32 DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	73,381,226	71,004,648
Amortisation: Intangible Assets	145,456	42,386
<b>Total Depreciation and Amortisation</b>	<b>73,526,682</b>	<b>71,047,034</b>
<b>33 IMPAIRMENT LOSSES</b>		
Impairment Losses on Fixed Assets	1,587,000	967,177
Impairment Losses on Financial Assets	59,829,231	23,812,318
Fair Value Adjustments	62,545	-
<b>Total Impairment Losses</b>	<b>61,478,776</b>	<b>24,779,495</b>
<b>34 INTEREST, DIVIDENDS AND RENT ON LAND PAID</b>		
Interest Paid	14,324,358	14,207,786
Borrowings	3,775,682	8,337,628
Finance Leases	796,045	-
Interest costs non-current Provisions	3,312,712	-
Overdue Accounts	6,439,919	5,870,158
<b>Total Interest, Dividends and Rent on Land</b>	<b>14,324,358</b>	<b>14,207,786</b>
<b>34.1 Calculation of Cash Flow:</b>		
Finance Cost Expenditure	3,775,682	8,337,628
Interest on Finance Leases	796,045	-
Actual Interest Payment on Payables	501,742	-
<b>Total Payments for Finance Costs</b>	<b>5,073,469</b>	<b>8,337,628</b>
<b>35 BULK PURCHASES</b>		
Electricity	184,880,508	185,413,050
Water	32,707,822	35,205,001
<b>Total Bulk Purchases</b>	<b>217,588,330</b>	<b>220,618,051</b>
<b>36 CONTRACTED SERVICES</b>		
Outsourced Services	7,036,639	3,213,826
Consultants and Professional Services	10,340,310	10,536,860
Contractors	18,115,505	72,868
<b>Total Contracted Services</b>	<b>35,492,455</b>	<b>13,823,555</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

		2018 R	2017 R
<b>36.1 Outsourced Services</b>			
Burial Services		23,900	-
Business and Advisory		2,443,257	120,479
Catering Services		416,016	351,688
Cleaning Services		33,424	-
Drivers Licence Cards		323,257	-
Illegal Dumping		39,654	-
Internal Auditors		787,827	1,770,536
Litter Picking and Street Cleaning		40,591	-
Medical Services [Medical Health Services & Support]		400,959	354,523
Professional Staff		305,000	-
Refuse Removal		95,080	-
Security Services		591,860	516,859
Traffic Fines Management		1,427,767	-
Transport Services		108,047	99,741
		<b>7,036,639</b>	<b>3,213,826</b>
<b>36.2 Consultants and Professional Services</b>			
Business and Advisory		4,141,281	5,634,174
Infrastructure and Planning		1,456,570	399,545
Laboratory Services		564,758	403,343
Legal Cost		4,177,701	4,099,798
		<b>10,340,310</b>	<b>10,536,860</b>
<b>36.3 Contractors</b>			
Employee Wellness		4,580	23,513
Interior Decorator		8,426	-
Maintenance of Buildings and Facilities		1,973,118	-
Maintenance of Equipment		221,063	-
Maintenance of Unspecified Assets		15,893,662	-
Mint of Decorations		-	42,415
Pest Control and Fumigation		10,850	6,940
Transportation		3,808	-
		<b>18,115,505</b>	<b>72,868</b>
<b>36.4 Calculation of Cash Flow:</b>			
Expenditure for Inventory Consumed	Note 37	20,580,753	46,172,326
Expenditure for Contracted Services	Note 36	35,492,455	13,823,555
Expenditure for Bulk Purchases	Note 35	217,588,330	220,618,051
Opening Balance of Payables: Exchange Transactions	Note 15	128,559,171	144,042,974
Closing Balance of Payables: Exchange Transactions	Note 15	(126,624,642)	(128,559,171)
Opening Balance of Inventories	Note 2	(4,952,364)	(5,433,903)
Closing Balance of Inventories	Note 2	6,666,181	4,952,364
<b>Total for Suppliers Paid</b>		<b>276,808,142</b>	<b>295,616,196</b>
<b>37 INVENTORY CONSUMED</b>			
Consumables		7,402,856	5,965,994
Materials and Supplies		13,177,897	40,206,332
		<b>20,580,753</b>	<b>46,172,326</b>
<b>38 TRANSFERS AND SUBSIDIES PAID</b>			
Provincial Government		372,340	-
<b>Total Transfers and Subsidies Paid</b>		<b>372,340</b>	<b>-</b>
<b>39 OPERATING LEASES</b>			
Land		478,582	-
Machinery and Equipment		2,245,652	1,333,457
Transport Assets		1,300	-
<b>Total for Operating Leases</b>		<b>2,725,534</b>	<b>1,333,457</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

		<b>2018</b>	<b>2017</b>
		<b>R</b>	<b>R</b>
<b>40 OPERATIONAL COSTS</b>			
Included in General Expenses are the following:			
Achievements and Awards		1,608,413	-
Advertising, Publicity and Marketing		811,909	750,496
Bank Charges, Facility and Card Fees		588,874	826,265
Bargaining Council		2,661,654	2,238,873
Commission		697,557	4,253,772
Communication		4,246,632	4,760,976
Contribution to Provisions		500,000	-
Courier and Delivery Services		33	-
Deeds		(56,050)	-
Eskom Connection Fees		-	359,560
External Audit Fees		4,786,064	4,240,533
External Computer Service		3,889,707	1,007,531
Fines and Penalties		-	1,062,420
Hire Charges		17,059,990	12,263,946
Insurance Underwriting		2,164,842	2,416,705
Levies Paid - Water Resource Management Charges		-	131,386
Licences		3,340,716	687,053
Management Fee		3,368,870	1,278,404
Municipal Services		4,880,801	-
Personnel Agency Fees [Personnel Recruitment Costs]		-	78,355
Printing, Publications and Books		1,371,851	666,306
Professional Bodies, Membership and Subscription		11,911	6,252
Registration Fees		670,592	258,309
Remuneration to Ward Committees		1,133,615	312,589
Repayment of Forfeited Deposits		308,761	-
Resettlement Cost		61,729	-
Search Fees		90,072	72,795
Signage		9,122	70,611
Skills Development Fund Levy		1,425,362	2,127,983
Travel and Subsistence		982,475	670,036
Uniform and Protective Clothing		1,321,475	1,069,741
Vehicle Tracking		571,836	-
Workmen's Compensation Fund		986,348	1,349,184
<b>Total Operational Costs</b>		<b><u>59,495,162</u></b>	<b><u>42,960,080</u></b>
<b>40.1 Calculation of Cash Flow:</b>			
Expenditure for Operational Costs	Note 40	(59,495,162)	(42,960,080)
Expenditure for Operating Leases	Note 39	(1,929,489)	(1,333,457)
Expenditure for Transfers and Subsidies Paid	Note 38	(372,340)	-
Opening Balance of Current Other Operating Provisions	Note 14	(2,741,534)	(3,292,190)
Closing Balance of Current Other Operating Provisions	Note 14	3,170,650	2,741,534
Opening Balance of Non-current Other Operating Provisions	Note 19	(62,465,810)	(58,880,970)
Closing Balance of Non-current Other Operating Provisions	Note 19	65,679,934	62,465,810
Correction of Prior Year Errors		-	520,204
Other non-cash movements		(363,124)	402,559
<b>Total for Other Payments</b>		<b><u>(58,516,877)</u></b>	<b><u>(40,336,590)</u></b>
<b>40.2 Travel and Subsistence</b>			
<b>Domestic</b>		<b>738,843</b>	<b>660,360</b>
Accommodation		293,569	-
Daily Allowance		19,013	-
Transport without Operator		296,731	660,360
Transport with Operator		129,529	-
<b>Non-employees</b>		<b>243,632</b>	<b>9,676</b>
		<b><u>982,475</u></b>	<b><u>670,036</u></b>
No other extra-ordinary expenses were incurred.			
<b>41 GAINS / LOSSES ON DISPOSAL OF CAPITAL ASSETS</b>			
Property, Plant and Equipment		(1,591,775)	(2,058,422)
<b>Total Losses on Disposal of Capital Assets</b>		<b><u>1,591,775</u></b>	<b><u>2,058,422</u></b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
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**42 CORRECTION OF ERROR AND RECLASSIFICATION OF ACCOUNTS**

The municipality implemented the Municipal Standard Chart of Accounts (MSCOA) during the year ended 30 June 2018 as required in terms of the Municipal Regulations on Standard Chart of Accounts, announced by Government Gazette No 37577 of 22 April 2014, in section 168 of the Local Government: Municipal Finance Management Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

MSCOA is a standard chart of accounts which prescribes in which class of transactions or account balance certain transactions must be recorded. Prior to MSCOA, the allocation was done based on management's own judgement. In order to comply with MSCOA, certain of the prior year accounts had to be reclassified in order to ensure that the amounts disclosed in the AFS are comparable for both years. Since MSCOA is prescriptive, the current year regulated classification was used as the basis to reclassify certain accounts. In some instances, it was identified that management's previous judgement was indeed incorrect. This would usually be regarded as a prior period error. However, the effect of the incorrect judgement is merely a reclassification of the accounts. Since the incorrect classification does not impact the measurement of the underlying item, management applied judgement to refer to these movements of accounts as reclassifications.

The split between reclassifications and prior period errors are therefore provided to ensure that a clear distinction is made between movements identified during the implementation of MSCOA whilst items classified as errors are those items which were factual errors in the prior year, affecting the measurement of such items. The title reclassification does not exclude previous judgement errors, but is rather presented separately in order to allow users to understand that these changes were identified as a consequence of the exercise to implement MSCOA.

**42.1 Reclassification of Accounts**

As stated with the introductory paragraph, reclassifications does not relate to a factual error, nor does it impact the measurement of the underlying item. This merely relates to a change in disclosure classification, details of which can be viewed below:

**42.1.1 Reclassification of Revenue**

The effect of the reclassifications are as follows:

	Prior Year 2016/17 Audited	Reclassifications	Restated Amount 2016/17
Property Rates	148,074,778	-	148,074,778
Fines	10,551,532	(10,551,532)	-
Fines, Penalties and Forfeits	-	10,600,474	10,600,474
Licences and Permits - Non-exchange	6,877,409	1,504,361	8,381,770
Transfers and Subsidies	144,304,831	4,000	144,308,831
Interest, Dividends & Rent on Land Non-Exchange	-	1,511,366	1,511,366
Public Contributions and Donations	4,000	(4,000)	-
Service Charges	337,383,571	(1,418,100)	335,965,472
Sales of Goods and Rendering of Services	-	6,860,161	6,860,161
Rental from Fixed Assets	1,505,650	-	1,505,650
Interest, Dividends & Rent on Land Exchange	-	14,409,095	14,409,095
Interest Earned - External Investments	7,776,128	(7,776,128)	-
Interest Earned - Outstanding Debtors	8,144,334	(8,144,334)	-
Operational Revenue	12,566,040	(6,995,365)	5,570,675
	<b>677,188,273</b>	<b>-</b>	<b>677,188,273</b>

Prior year amounts of items in Revenue included in the Statement of Financial Performance have been reclassified as indicated below:

	Fines	Fines, Penalties and Forfeits	License and Permits - Non Exchange
<b>Balance previously reported</b>	<b>10,551,532</b>	<b>-</b>	<b>6,877,409</b>
Fines reclassified to Fines, Penalties and Forfeits as per MSCOA	(10,551,532)	10,551,532	-
Law Enforcement Revenue Reclassified from Operational Revenue to Fines, Penalties and Forfeits	-	48,942	-
Service Charges reclassified to Licenses and Permits	-	-	1,504,361
<b>Restated Balance now reported</b>	<b>-</b>	<b>10,600,474</b>	<b>8,381,770</b>
	Transfers and Subsidies	Interest, Dividends and Rent on Land - Non Exchange	Public Contribution and Donations
<b>Balance previously reported</b>	<b>144,304,831</b>	<b>-</b>	<b>4,000</b>
Public Contributions and Donations has been reclassified to Transfers and Subsidies	4,000	-	(4,000)
Interest reclassified to Interest, Dividends and Rent on Land - Non Exchange	-	1,511,366	-
<b>Restated Balance now reported</b>	<b>144,308,831</b>	<b>1,511,366</b>	<b>-</b>
	Service Charges	Sales of Goods and Rendering of Services	Interest, Dividends and Rent on Land - Exchange
<b>Balance previously reported</b>	<b>337,383,571</b>	<b>-</b>	<b>-</b>
Service Charges reclassified to Licenses and Permits	(1,504,361)	-	-
Interest External Investments reclassified to Interest, Dividends and Rent on Land - Exc	-	-	7,776,128
Interest Outstanding Debtors reclassified to Interest, Dividends and Rent on Land - Exc	-	-	6,632,968
Operational Revenue reclassified to Service Charges	86,261	-	-
Operational Revenue reclassified to Sales of Goods and Rendering of Services	-	6,860,161	-
<b>Restated Balance now reported</b>	<b>335,965,472</b>	<b>6,860,161</b>	<b>14,409,095</b>

**KOUGA LOCAL MUNICIPALITY**  
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	Interest Earned - External Investments	Interest Earned - Outstanding Debtors	Operational Revenue
<b>Balance previously reported</b>	<b>7,776,128</b>	<b>8,144,334</b>	<b>12,566,040</b>
Law Enforcement Revenue Reclassified from Operational Revenue to Fines, Penalties and Forfeits			(48,942)
Interest External Investments reclassified to Interest, Dividends and Rent on Land - Exc	(7,776,128)	-	-
Interest Outstanding Debtors reclassified to Interest, Dividends and Rent on Land - Exc	-	(6,632,968)	
Interest reclassified to Interest, Dividends and Rent on Land - Non Exchange		(1,511,366)	
Operational Revenue reclassified to Service Charges			(86,261)
Operational Revenue reclassified to Sales of Goods and Rendering of Services			(6,860,161)
<b>Restated Balance now reported</b>	<b>-</b>	<b>-</b>	<b>5,570,675</b>

**Fines:**

The prior year amounts for Fines has been reclassified to Fines, Penalties and Forfeits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Fines, Penalties and Forfeits:**

Fines, Penalties and Forfeits is a new category to the Financial Performance due to the Implementation of MSCOA.

The prior year amounts for Fines has been reclassified to Fines, Penalties and Forfeits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Law Enforcement Revenue has been reclassified from Operational Revenue to Fines, Penalties and Forfeits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Licenses and Permits - Non-Exchange:**

Service Charges for Mooring Fees and Riparian Levy has been reclassified to Licenses and Permits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Transfers and Subsidies:**

The prior year amounts for Public Contributions has been reclassified to Transfers and Subsidies to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Interest, Dividends and Rent on Land - Non Exchange:**

The prior year amounts for Interest on Rates has been reclassified from Interest Earned - Outstanding Debtors to Interest, Dividends and Rent on Land - Non Exchange to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Public Contribution and Donations:**

Public Contributions has been reclassified to Transfers and Subsidies to more accurately disclose the nature of the transaction, and in accordance with

**Service Charges:**

Service Charges for Mooring Fees and Riparian Levy has been reclassified to Licenses and Permits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts for Connection Fees has been reclassified from Operational Revenue to Service Charges to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Sales of Goods and Rendering of Services:**

Prior year amounts for Operational Revenue has been reclassified to Sales of Goods and Rendering of Service to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Interest, Dividends and Rent on Land - Exchange:**

Prior year amounts for Interest Earned - External Investments has been reclassified to to Interest, Dividends and Rent on Land - Exchange to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts included in Interest Earned - Outstanding Debtors has been reclassified to to Interest, Dividends and Rent on Land - Exchange to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Interest Earned - External Investments:**

Prior year amounts for Interest Earned - External Investments has been reclassified to to Interest, Dividends and Rent on Land - Exchange to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Interest Earned - Outstanding Debtors:**

Prior year amounts included in Interest Earned - Outstanding Debtors has been reclassified to to Interest, Dividends and Rent on Land - Exchange to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

The prior year amounts for Interest on Rates has been reclassified from Interest Earned - Outstanding Debtors to Interest, Dividends and Rent on Land - Non Exchange to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Operational Revenue:**

Prior year amounts for Connection Fees has been reclassified from Operational Revenue to Service Charges to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts for Operational Revenue has been reclassified to Sales of Goods and Rendering of Service to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**42.1.2 Reclassification of Expenditure**

The effect of the Reclassifications are as follows:

	Prior Year 2016/17 Audited	Reclassification	Restated Amount 2016/17
Employee Related Costs	228,043,152	(3,459,518)	224,583,634
Remuneration of Councillors	11,101,213	-	11,101,213
Depreciation and Amortisation	71,047,034	-	71,047,034
Impairment Losses	24,779,495	-	24,779,495
Repairs and Maintenance	34,087,476	(34,087,476)	-
Finance charges - external funding	15,490,893	(15,490,893)	-
Interest, Dividends and Rent on Land	-	14,207,786	14,207,786
Bulk Purchases	220,618,051	-	220,618,051
Contracted Services	13,293,251	530,304	13,823,555
Inventory Consumed	-	46,172,326	46,172,326
Transfers and Subsidies Paid	1,080,000	(1,080,000)	-
Operating Leases	-	1,333,457	1,333,457
Operational Costs	51,086,065	(8,125,986)	42,960,080
Loss on Disposal of PPE	2,058,422	-	2,058,422
	<b>672,685,052</b>	<b>-</b>	<b>672,685,052</b>



**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

Prior year amounts of items in Expenditure included in the Statement of Financial Performance have been restated as indicated below:

	<b>Employee Related Costs</b>	<b>Repairs and Maintenance</b>	<b>Finance charges - external funding</b>
<b>Balance previously reported</b>	<b>228,043,152</b>	<b>34,087,476</b>	<b>15,490,893</b>
Employee Related Costs Reclassified to Operational Costs	(3,459,518)	-	-
Repairs and Maintenance Reclassified to Inventory Consumed	-	(33,200,259)	-
Repairs and Maintenance Reclassified to Operational Costs	-	(887,217)	-
Finance Charges reclassified to Interest, Dividends and Rent on Land	-	-	(14,207,786)
Finance Charges reclassified to Operating Leases	-	-	(1,283,107)
<b>Restated Balance now reported</b>	<b>224,583,634</b>	<b>-</b>	<b>-</b>
	<b>Interest, Dividends and Rent on Land</b>	<b>Contracted Services</b>	<b>Inventory Consumed</b>
<b>Balance previously reported</b>	<b>-</b>	<b>13,293,251</b>	<b>-</b>
Finance Charges reclassified to Interest, Dividends and Rent on Land	14,207,786	-	-
Repairs and Maintenance Reclassified to Inventory Consumed	-	-	33,200,259
Operational Costs reclassified to Inventory Consumed	-	-	12,972,067
Transfers and Subsidies reclassified to Contracted Services	-	1,080,000	-
Contracted Services transferred to Operational Costs	-	(549,696)	-
<b>Restated Balance now reported</b>	<b>14,207,786</b>	<b>13,823,555</b>	<b>46,172,326</b>
	<b>Transfers and Subsidies Paid</b>	<b>Operating Leases</b>	<b>Operational Costs</b>
<b>Balance previously reported</b>	<b>1,080,000</b>	<b>-</b>	<b>51,086,065</b>
Transfers and Subsidies reclassified to Contracted Services	(1,080,000)	-	-
Finance Charges reclassified to Operating Leases	-	1,283,107	-
Employee Related Costs Reclassified to Operational Costs	-	-	3,459,518
Repairs and Maintenance Reclassified to Operational Costs	-	-	887,217
Operational Costs reclassified to Inventory Consumed	-	-	(12,972,067)
Operational Costs reclassified to Operating Leases	-	50,350	(50,350)
Contracted Services transferred to Operational Costs	-	-	549,696
<b>Restated Balance now reported</b>	<b>-</b>	<b>1,333,457</b>	<b>42,960,080</b>

**Employee Related Costs:**

Prior Year Amounts for UIF and SDL included in Employee Related Cost has been reclassified to Operational Costs to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Repairs and Maintenance:**

The prior year amounts for Repairs and Maintenance has been reclassified to Inventory Consumed and Operational Costs to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Finance charges - external funding:**

The prior Year Amounts for Finance Charges - External Funding has been reclassified to Interest, Dividends and Rent on Land and to Operating Leases to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Interest, Dividends and Rent on Land:**

Prior Year Amounts for Finance Charges - External Funding has been reclassified to Interest, Dividends and Rent on Land to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Contracted Services:**

The prior year amounts for Transfers and Subsidies paid were reclassified to Contracted Services to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts for Contracted Services was reclassified to Operational Costs to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Inventory Consumed:**

Prior year amounts for Repairs and Maintenance has been reclassified to Inventory Consumed to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts for Other Expenditure has been reclassified to Inventory Consumed to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Transfers and Subsidies Paid:**

The prior year amounts for Transfers and Subsidies paid were reclassified to Contracted Services to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Operating Leases:**

Prior Year Amounts for Finance Charges - External Funding has been reclassified to Operating Leases to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior Year Amounts for Bush Clearing Equipment included in Operational Costs has been reclassified to Operating Leases to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Operational Costs:**

Prior Year Amounts for UIF and SDL included in Employee Related Cost has been reclassified to Operational Costs to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts for Repairs and Maintenance has been reclassified to Operational Costs to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior year amounts for Contracted Services was reclassified to Operational Costs to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Prior Year Amounts for Bush Clearing Equipment included in Operational Costs has been reclassified to Operating Leases to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**42.1.3 Reclassification of Statement of Financial Position**

The effect of the Reclassifications are as follows:

	Prior Year 2016/17 Audited	Reclassification	Restated Amount 2016/17
<b>Current Assets</b>			
Inventories	4,952,364	-	4,952,364
Receivables from Exchange Transactions	42,558,781	(98,669)	42,460,112
Receivables from Non-exchange Transactions	30,901,952	98,669	31,000,621
VAT Receivable	11,288,813	-	11,288,813
Cash and Cash Equivalents	84,253,706	-	84,253,706
Operating Lease Receivables	281,727	-	281,727
Current Portion of Long-term Receivables	3,000	-	3,000
<b>Non-Current Assets</b>			
Property, Plant and Equipment	2,010,676,430	-	2,010,676,430
Intangible Assets	62,225	-	62,225
Investment Property	285,199,244	-	285,199,244
Long-term Receivables	64,751	-	64,751
<b>Current Liabilities</b>			
Consumer Deposits	10,273,091	3,293,933	13,567,024
Provisions	22,644,269	-	22,644,269
Payables from Exchange Transactions	115,326,930	12,912,271	128,239,200
Payables from Non-exchange Transactions	16,206,204	(16,206,204)	0
Unspent Conditional Grants and Receipts	6,726,723	-	6,726,723
Current Portion of Long-term Liabilities	8,599,901	-	8,599,901
<b>Non-Current Liabilities</b>			
Long-term Liabilities	32,567,197	-	32,567,197
Non-current Provisions	62,465,810	-	62,465,810
Employee Benefit Liabilities	92,444,000	-	92,444,000
<b>Net Assets</b>			
Accumulated Surplus / (Deficit)	2,102,988,868	-	2,102,988,868
	<u>-</u>	<u>0</u>	<u>0</u>

Opening balances and prior year amounts of items in the Statement of Financial Position have been restated as indicated below:

		Receivables from Exchange Transactions	Receivables from Non-exchange Transactions
<b>Balance previously reported</b>		<b>42,558,781</b>	<b>30,901,952</b>
Receivables from Non-Exchange transferred to Receivables from Exchange		(98,669)	98,669
<b>Restated Balance now reported</b>		<b>42,460,112</b>	<b>31,000,621</b>
	Consumer Deposits	Payables from Exchange Transactions	Payables from Non- exchange Transactions
<b>Balance previously reported</b>	<b>10,273,091</b>	<b>115,326,930</b>	<b>16,206,204</b>
Payables Non-Exchange Transactions reclassified to Consumer Deposits	3,293,933	-	(3,293,933)
Payables Non-Exchange Transactions reclassified to Payables Exchange Transactions	-	12,912,272	(12,912,272)
<b>Restated Balance now reported</b>	<b>13,567,024</b>	<b>128,239,201</b>	<b>(0)</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**Receivables from Exchange Transactions:**

Certain prior period amounts for receivables from Non-Exchange Transactions has been reclassified to Receivables from Exchange transactions to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Receivables from Non-exchange Transactions:**

Certain prior period amounts for receivables from Non-Exchange Transactions has been reclassified to Receivables from Exchange transactions to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Consumer Deposits:**

Prior period amounts for Payables From Non-Exchange Transactions, specifically related to Hall Deposits, has been reclassified to Consumer Deposits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Payables from Exchange Transactions:**

Prior period amounts for Payables From Non-Exchange Transactions has been reclassified to Payables from Exchange Transactions to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**Payables from Non-exchange Transactions:**

Prior period amounts for Payables From Non-Exchange Transactions, specifically related to Hall Deposits, has been reclassified to Consumer Deposits to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

Furthermore other prior period amounts for Payables From Non-Exchange Transactions has been reclassified to Payables from Exchange Transactions to more accurately disclose the nature of the transaction, and in accordance with MSCOA.

**42.2 Correction of Prior Period Errors**

**42.2.1 Correction of Statement of Financial Position**

The effect of the Correction of Error is as follows:

	Restated amount after Reclassifications	Correction of Error	Restated Amount 2016/17
<b>Current Assets</b>			
Inventories	4,952,364	-	4,952,364
Receivables from Exchange Transactions	42,460,112	-	42,460,112
Receivables from Non-exchange Transactions	31,000,620	-	31,000,620
VAT Receivable	11,288,813	-	11,288,813
Cash and Cash Equivalents	84,253,706	-	84,253,706
Operating Lease Receivables	281,727	-	281,727
Current Portion of Long-term Receivables	3,000	-	3,000
<b>Non-Current Assets</b>			
Property, Plant and Equipment	2,010,676,430	(520,203)	2,010,156,227
Intangible Assets	62,225	-	62,224
Investment Property	285,199,244	-	285,199,244
Long-term Receivables	64,751	-	64,751
<b>Current Liabilities</b>			
Consumer Deposits	13,567,024	-	13,567,024
Provisions	22,644,269	-	22,644,269
Payables from Exchange Transactions	128,239,201	319,970	128,559,172
Payables from Non-exchange Transactions	0	-	0
Unspent Conditional Grants and Receipts	6,726,723	(319,970)	6,406,753
Current Portion of Long-term Liabilities	8,599,901	-	8,599,901
<b>Non-Current Liabilities</b>			
Long-term Liabilities	32,567,197	-	32,567,197
Non-current Provisions	62,465,810	-	62,465,810
Employee Benefit Liabilities	92,444,000	-	92,444,000
<b>Net Assets</b>			
Accumulated Surplus / (Deficit)	2,102,988,866	(520,203)	2,102,468,663
	-	-	-

Opening balances and prior year amounts of items in the Statement of Financial Position have been restated as indicated below:

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	Unspent Conditional Grants and Receipts	Payables from Exchange Transactions	Property, Plant and Equipment
<b>Restated Balance after Reclassifications</b>	<b>6,726,723</b>	<b>128,239,201</b>	<b>2,102,988,866</b>
Prior period correction of PPE to Accumulated Surplus			(520,203)
Reclassification of Unspent Grants to Payables from Exchange Transactions	(319,970)	319,970	
<b>Restated Balance now reported</b>	<b><u>6,406,753</u></b>	<b><u>128,559,171</u></b>	<b><u>2,102,468,663</u></b>

**Property, Plant and Equipment:**

Certain prior year amounts for Property, Plant and Equipment has been corrected as per the annually reviewed and revised Asset Register.

**Payables from Exchange Transactions:**

Prior period amounts for Unspent Grants and Payables from Exchange Transactions has been restated to accurately disclose the nature of transaction related to Housing Grants.

**Unspent Conditional Grants and Receipts:**

Prior period amounts for Unspent Grants and Payables from Exchange Transactions has been restated to accurately disclose the nature of transaction related to Housing Grants.

**43 CHANGE IN ACCOUNTING ESTIMATES**

**43.1 Depreciation Expenditure:**

The useful life of the certain items of Property, Plant and Equipment was revised during the current financial year. The effect of the revision has decreased the depreciation charge in the current financial years by R2,455,613 and changed the depreciation in the future period as set out in the below table:

Change in Depreciation per period	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Intangible Assets	(6 726)	-278	2 603	2 307	2 095
Property, Plant and Equipment	(2 455 613)	(2 260 035)	(1 811 680)	(471 999)	4 234 247

**44 CASH GENERATED BY OPERATIONS**

Surplus / (Deficit) for the Year	-1,978,303	4,503,220
Adjustment for:		
Correction of Prior Year Errors	-	520,204
Non-Cash Interest on Debtors	-6,784,176	-8,144,334
Non-Cash Interest on Payables and Provisions	9,752,632	5,870,158
Depreciation and Amortisation	73,526,682	71,047,034
Less: Insurance Payout, classified as Investing Activities	-747,758	-2,208,211
Interest on Finance Leases	796,045	-
Impairment Losses on Property, Plant and Equipment	61,478,776	24,779,495
Losses / (Gains) on Disposal of Property, Plant and Equipment	1,591,775	2,058,422
Movement in Current Employee Benefit Liabilities	704,000	994,810
Movement in Current Staff Benefit Provisions	405,203	1,180,708
Movement in Non-current Employee Benefit Liabilities	3,857,000	1,398,000
Movement in Current Other Operating Provisions	429,116	-550,656
Movement in Non-current Other Operating Provisions	3,214,124	3,584,840
Reversal of Fines Debtors prior year	-25,099,061	-
Bad Debts Written-off	-11,345,215	-10,954,627
<b>Operating surplus before working capital changes</b>	<b><u>110,122,861</u></b>	<b><u>94,298,566</u></b>
Decrease/(Increase) in Inventories	-1,713,817	481,539
Decrease/(Increase) in Receivables from Exchange Transactions	-20,343,922	-2,989,616
Decrease/(Increase) in Receivables from Non-exchange Transactions	-11,271,806	-5,505,345
Decrease/(Increase) in VAT Receivable	-11,424,658	-6,906,860
Decrease/(Increase) in Operating Lease Receivables	12,602	-2,924
Increase/(Decrease) in Consumer Deposits	1,673,845	682,761
Increase/(Decrease) in Payables from Exchange Transactions	-1,934,529	-15,294,984
Increase/(Decrease) in Payables from Non-exchange Transactions	-0	52,857
Increase/(Decrease) in Conditional Grants and Receipts	534,755	-1,114,802
Other non-cash movements	-363,124	402,559
<b>Cash generated by / (utilised in) Operations</b>	<b><u>65,292,206</u></b>	<b><u>64,103,750</u></b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>45 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</b>		
<b>45.1 Unauthorised Expenditure</b>		
Reconciliation of Unauthorised Expenditure:		
Opening balance	81,408,523	369,440,187
Unauthorised Expenditure current year	-	-
Approved by Council or condoned	(81,408,523)	(288,031,664)
To be recovered – contingent asset (see Note 59)	-	-
Transfer to receivables for recovery (see Note 4)	-	-
Unauthorised Expenditure awaiting authorisation	<u>-</u>	<u>81,408,523</u>

**45.2 Fruitless and Wasteful Expenditure**

Reconciliation of Fruitless and Wasteful expenditure:		
Opening balance	35,338,187	34,805,555
Fruitless and Wasteful Expenditure current year	501,742	532,632
Fruitless and Wasteful Expenditure identified in current year relating to prior years	-	-
Expenditure investigated and approved by Council	-	-
To be recovered	-	-
Fruitless and Wasteful Expenditure awaiting condonement	<u>35,839,929</u>	<u>35,338,187</u>

Incident	Disciplinary Steps / Criminal Proceedings
Interest and penalties on late payment of trade creditors. - R501,742 (2017: R532,632)	Currently None - subject to possible future investigation

**45.3 Irregular Expenditure**

**Restated**

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

Reconciliation of Irregular Expenditure:		
Opening balance	98,868,934	92,593,022
Irregular Expenditure current year	2,399,573	6,275,913
Condoned or written off by Council	(2,569,294)	-
Irregular Expenditure awaiting condonement	<u>98,699,214</u>	<u>98,868,934</u>

Incident	Disciplinary Steps / Criminal Proceedings
Invalid deviations - R2,399,573 (2017: R6,275,913)	Under Investigation. To be submitted to Council for condonement.

**46 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**46.1 Contributions to organised local government - SALGA**

Opening Balance	-	-
Council Subscriptions	2,578,034	2,238,873
Amount Paid - current year	(2,578,034)	(2,238,873)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<u>-</u>	<u>-</u>

**46.2 Audit Fees**

Opening Balance	809,157	2,307,621
Current year Audit Fee	4,091,413	4,240,533
Amount Paid - current year	(4,900,570)	(5,738,997)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<u>-</u>	<u>809,157</u>

**46.3 VAT**

The net of VAT input payables and VAT output receivables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.

**46.4 PAYE, Skills Development Levy and UIF**

Opening Balance	-	2,518,209
Current year Payroll Deductions	33,184,866	28,400,250
Amount Paid - current year	(33,184,866)	(30,918,459)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<u>-</u>	<u>-</u>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**46.5 Pension and Medical Aid Deductions**

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	57,001,741	53,183,020
Amount Paid - current year	(57,001,741)	(53,183,020)
Amount Paid - previous years	-	-

**Balance Unpaid (included in Creditors)**

-	-
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**46.6 Councillor's arrear Consumer Accounts**

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts.

**46.7 Non-Compliance with the Municipal Finance Management Act**

No known matters existed at the reporting date.

**46.8 Deviation from, and ratification of minor breaches of, the Procurement Processes**

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

**30 June 2018**

Department	Tenderer	Reason	Amount
Finance	Various (3)	Various reason like impracticality/ urgency/ Continuity and alignment	368,550
Infrastructure & Engineering	Various (66)	Various reason like impracticality/ urgency/ Preferred supplier	8,653,678
Corporate Services	Various (7)	Various reason like impracticality/ urgency/ Sole Supplier	255,125
Community Services	Various (15)	Various reason like Sole Supplier impracticality/ urgency/ Preferred supplier	952,809
Planning, Development & Tourism ( Strategic	Various (2)	Impracticality	95,543
<b>Total:</b>			<b>10,325,705</b>

**30 June 2017**

Department	Tenderer	Reason	Amount
Finance	Various (96)	Various reasons such as impracticality/ urgency/ Preferred supplier/ Original Equipment Manufacturer	5,896,775
Infrastructure, Planning & Development	Various (15)	Various reason such as impracticality/ urgency/ Preferred supplier	1,499,106
Administration, Monitoring & Evaluation	Various (1)	Various reason such as impracticality/ urgency/ Preferred supplier	1,166,801
Social Services	Various (10)	Various reason such as Sole Supplier authorised by govt departments/ impracticality/ urgency/ Preferred supplier	592,223
<b>Total:</b>			<b>9,154,905</b>

**46.9 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA**

Material Electricity and Water Losses were as follows and are not recoverable:

**Electricity:**

		Lost Units	Tariff	Value
<b>30 June 2018</b>	Unaccounted Electricity Losses	21,681,312	1.0010	21,702,333
<b>30 June 2017</b>	Unaccounted Electricity Losses	35,453,122	0.7862	27,873,245

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

	2018 R	2017 R
<b>Volumes in kWh/year:</b>		
System Input Volume	203,602,562	203,652,576
Billed Consumption	165,633,045	168,199,454
Unaccounted	37,969,517	35,453,122
Normal distribution losses - 8% of electricity purchases	(16,288,205)	(16,292,206)
	21,681,312	19,160,916
Percentage Distribution Loss	10.65%	9.41%

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**Water:**

		Lost Units	Tariff	Value
<b>30 June 2018</b>	Unaccounted Water Losses	<u>2,918,337</u>	<u>6.2700</u>	<u>26,836,952</u>
<b>30 June 2017</b>	Unaccounted Water Losses	<u>3,643,263</u>	<u>5.7400</u>	<u>20,912,330</u>

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

	2018 R	2017 R
<b>Volumes in KI/year:</b>		
System Input Volume	8,239,954	9,471,235
Billed Consumption	5,321,617	5,827,972
Distribution Loss	2,918,337	3,643,263
Percentage Distribution Loss	35.42%	38.47%

**47 COMMITMENTS FOR EXPENDITURE**

**47.1 Capital Commitments**

Commitments in respect of Capital Expenditure:

**- Approved and Contracted for:-**

Infrastructure  
Community  
Other

54,598,299	29,220,511
44,956,275	9,882,449
3,484,959	9,739,376
6,157,066	9,598,686

This expenditure will be financed from:

Internal and Grant funding

54,598,299	29,220,511
<u>54,598,299</u>	<u>29,220,511</u>

**48 FINANCIAL INSTRUMENTS**

**48.1 Classification**

**FINANCIAL ASSETS:**

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
<b>Long-term Receivables</b>			
Staff Related Long Term Receivables	Amortised cost	64,751	-
<b>Receivables from Exchange Transactions</b>			
Electricity	Amortised cost	21,333,306	18,540,058
Refuse	Amortised cost	954,760	554,213
Sewerage	Amortised cost	2,396,110	2,172,425
Merchandising, Jobbing and Contracts	Amortised cost	-	-
Other Service Charges	Amortised cost	14,969,536	15,346,900
Water	Amortised cost	8,924,365	5,944,016
Housing Selling Scheme	Amortised cost	1,350	1,350
Other Debtors	Amortised cost	1,168	1,168
Prepayments and Advances	Amortised cost	2,730,843	(100,018)
Control, Clearing and Interface Accounts	Amortised cost	518,922	-
Unauthorised, Irregular, Fruitless and Wasteful Expenditure	Amortised cost	-	-
<b>Receivables from Non-exchange Transactions</b>			
Property Rates	Amortised cost	19,877,465	17,574,176
Insurance Claims	Amortised cost	(197,344)	-
Unauthorised, Irregular, Fruitless and Wasteful Expenditure	Amortised cost	-	-
Fines	Amortised cost	5,620,106	13,426,444
LGSETA Interns	Amortised cost	1,216,938	-
Over Payment of Contractors	Amortised cost	(1)	-

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**Cash and Cash Equivalents**

Call Deposits	Amortised cost	90,054,858	78,566,856
Short-term Portion of Investments	Amortised cost	-	-
Bank Balances	Amortised cost	4,259,846	5,694,930
Cash Floats and Advances	Fair value	421	(8,079)

**Current Portion of Long-term Receivables**

Staff Related Long Term Receivables	Amortised cost	3,000	3,000
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**SUMMARY OF FINANCIAL ASSETS**

**Financial Assets at Amortised Cost:**

Long-term Receivables	Staff Related Long Term Receivables	64,751	-
Receivables from Exchange Transactions	Electricity	21,333,306	18,540,058
Receivables from Exchange Transactions	Refuse	954,760	554,213
Receivables from Exchange Transactions	Sewerage	2,396,110	2,172,425
Receivables from Exchange Transactions	Other Service Charges	14,969,536	15,346,900
Receivables from Exchange Transactions	Water	8,924,365	5,944,016
Receivables from Exchange Transactions	Property Rental Debtors	-	-
Receivables from Exchange Transactions	Housing Selling Scheme	1,350	1,350
Receivables from Exchange Transactions	Other Debtors	1,168	1,168
Receivables from Exchange Transactions	Prepayments and Advances	2,730,843	(100,018)
Receivables from Exchange Transactions	Control, Clearing and Interface Accounts	518,922	-
Receivables from Exchange Transactions	Unauthorised, Irregular, Fruitless and Wasteful Expenditure	-	-
Receivables from Non-exchange Transactions	Property Rates	19,877,465	17,574,176
Receivables from Non-exchange Transactions	Insurance Claims	(197,344)	-
Receivables from Non-exchange Transactions	Unauthorised, Irregular, Fruitless and Wasteful Expenditure	-	-
Receivables from Non-exchange Transactions	Fines	5,620,106	13,426,444
Receivables from Non-exchange Transactions	LGSETA Interns	1,216,938	-
Receivables from Non-exchange Transactions	R/D Cheques	-	-
Receivables from Non-exchange Transactions	UIF Refund	-	-
Receivables from Non-exchange Transactions	Over Payment of Contractors	(1)	-
Receivables from Non-exchange Transactions	Accrued Income	-	-
Current Portion of Long-term Receivables	Staff Related Long Term Receivables	3,000	3,000
Current Portion of Long-term Receivables	Sporting and Other Bodies	-	-
Cash and Cash Equivalents	Call Deposits	90,054,858	78,566,856
Cash and Cash Equivalents	Bank Balances	4,259,846	5,694,930
Cash and Cash Equivalents	Short-term Portion of Investments	-	-
		<u>172,729,979</u>	<u>157,725,517</u>

**Financial Assets at Fair Value:**

Non-current Investments	Listed Investments	-	-
Cash and Cash Equivalents	Cash Floats and Advances	421	(8,079)
		<u>421</u>	<u>(8,079)</u>

**Total Financial Assets**

<u>172,730,400</u>	<u>157,717,438</u>
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**FINANCIAL LIABILITIES:**

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

<u>Financial Liabilities</u>	<u>Classification</u>		
<b>Long-term Liabilities</b>			
Development Bank of South Africa	Amortised cost	23,087,100	30,289,375
Finance Lease Liability	Amortised cost	513,296	2,277,822
Operating Lease Liability	Amortised cost	-	-



**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**Payables from Exchange Transactions**

Advance Payments	Amortised cost	16,129,451	14,716,787
Bonus	Amortised cost	(86,664)	-
Leave Accrual	Amortised cost	-	-
Other Payables	Amortised cost	14,372,085	7,542,409
Retentions	Amortised cost	2,841,657	3,098,325
Salary Related Payables	Amortised cost	559,307	12,619,947
Trade Creditors	Amortised cost	92,808,806	90,581,703

**Current Portion of Long-term Liabilities**

Development Bank of South Africa	Amortised cost	7,179,508	6,444,933
Finance Lease Liability	Amortised cost	1,764,527	2,154,968

**SUMMARY OF FINANCIAL LIABILITIES**

**Financial Liabilities at Amortised Cost:**

Long-term Liabilities	Development Bank of South Africa	23,087,100	30,289,375
Long-term Liabilities	Finance Lease Liability	513,296	2,277,822
Long-term Liabilities	Operating Lease Liability	-	-

Payables from Exchange Transactions	Advance Payments	16,129,451	14,716,787
Payables from Exchange Transactions	Bonus	(86,664)	-
Payables from Exchange Transactions	Leave Accrual	-	-
Payables from Exchange Transactions	Other Payables	14,372,085	7,542,409
Payables from Exchange Transactions	Retentions	2,841,657	3,098,325
Payables from Exchange Transactions	Salary Related Payables	559,307	12,619,947
Payables from Exchange Transactions	Trade Creditors	92,808,806	90,581,703

Current Portion of Long-term Liabilities	Development Bank of South Africa	7,179,508	6,444,933
Current Portion of Long-term Liabilities	Finance Lease Liability	1,764,527	2,154,968

<u>159,169,073</u>	<u>169,726,269</u>
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**Total Financial Liabilities**

<u>159,169,073</u>	<u>169,726,269</u>
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**48.2 Fair Value**

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

**Cash**

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

**Long-term Investments**

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

**Loan Receivables/Payables**

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Trade and Other Receivables/Payables**

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

**Other Financial Assets and Liabilities**

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

**Long-term Liabilities**

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2018, as a result of the short-term maturity of these assets and liabilities.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	30 June 2018		30 June 2017	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
<b>FINANCIAL ASSETS</b>				
<b>Measured at Amortised Cost:</b>	172,729,979	172,729,979	157,725,517	157,725,517
Long-term Receivables	64,751	64,751	-	-
Receivables from Exchange Transactions	51,830,360	51,830,360	42,460,112	42,460,112
Receivables from Non-exchange Transactions	26,517,164	26,517,164	31,000,620	31,000,620
Current Portion of Long-term Receivables	3,000	3,000	3,000	3,000
Call Deposits	90,054,858	90,054,858	78,566,856	78,566,856
Bank Balances	4,259,846	4,259,846	5,694,930	5,694,930
<b>Measured at Fair Value</b>	421	421	(8,079)	(8,079)
Cash and Cash Equivalents	421	421	(8,079)	(8,079)
<b>Total Financial Assets</b>	<u>172,730,400</u>	<u>172,730,400</u>	<u>157,717,438</u>	<u>157,717,438</u>
<b>FINANCIAL LIABILITIES</b>				
<b>Measured at Amortised Cost:</b>	159,169,073	159,169,073	169,726,269	169,726,269
Development Bank of South Africa	23,087,100	23,087,100	30,289,375	30,289,375
Finance Lease Liability	513,296	513,296	2,277,822	2,277,822
-Payables from Exchange Transactions	126,624,642	126,624,642	128,559,171	128,559,171
-Current Portion of Long-term Liabilities	8,944,035	8,944,035	8,599,901	8,599,901
Bank Overdraft	-	-	-	-
<b>Total Financial Liabilities</b>	<u>159,169,073</u>	<u>159,169,073</u>	<u>169,726,269</u>	<u>169,726,269</u>
<b>Total Financial Instruments</b>	<u>13,561,327</u>	<u>13,561,327</u>	<u>(12,008,832)</u>	<u>(12,008,832)</u>
<b>Unrecognised Gain / (Loss)</b>		<u>-</u>		<u>-</u>

No Financial Instruments of the municipality have been reclassified during the year.

**Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities**

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

**Level 1:-**

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

**Level 2:-**

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

**Level 3:-**

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**48.3 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2017.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b><u>Gearing Ratio</u></b>		
The gearing ratio at the year-end was as follows:		
Debt	32,544,431	41,167,098
Cash and Cash Equivalents	(65,172)	8,079
Net Debt	<u>32,479,259</u>	<u>41,175,177</u>
Equity	<u>2,101,010,573</u>	<u>2,102,468,664</u>
<b>Net debt to equity ratio</b>	<u><b>1.55%</b></u>	<u><b>1.96%</b></u>

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

#### **48.4 Financial Risk Management Objectives**

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

#### **48.5 Significant Risks**

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

##### **Market Risk**

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

##### **Credit Risk**

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

##### **Liquidity Risk**

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Note 48.8 to the Annual Financial Statements.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**48.6 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 48.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

**48.6.1 Foreign Currency Risk Management**

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

**48.6.2 Interest Rate Risk Management**

*Interest Rate Risk* is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

**Interest Rate Sensitivity Analysis**

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 48.8 below:

***Cash and Cash Equivalents:***

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2018 would have increased / decreased by R892,882 (30 June 2017: R814,217). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

**48.7 Credit Risk Management**

*Credit Risk* refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

**Investments/Bank, Cash and Cash Equivalents**

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

**Trade and Other Receivables**

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists based on the payment history of the parties, except for Northern Province Academy of Sport and Department of Water and Forestry Affairs for which there is uncertainty about the collectivity. They have been included in the Provision for Impairment of Consumer Debtors.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Long-term Receivables	19,000	67,751
Receivables from Exchange Transactions	144,779,143	124,435,221
Receivables from Non-exchange Transactions	71,534,437	60,262,631
Bank, Cash and Cash Equivalents	94,315,125	84,253,706
<b>Maximum Credit and Interest Risk Exposure</b>	<b>310,647,704</b>	<b>269,019,309</b>

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

	%	%
Consumer Debtors:		
- Household	0.00%	59.55%
- Industrial / Commercial	0.00%	6.03%
- National and Provincial Government	0.00%	1.46%
- Other Classes	0.00%	17.81%
Other Debtors:		
- Other not Classified	16.48%	13.59%
<b>Total Credit Risk</b>	<b>16.48%</b>	<b>98.43%</b>

**Bank and Cash Balances**

Current Investments	90,054,858	78,566,856
Bank Accounts	4,259,846	5,694,930
Cash Equivalents	421	(8,079)
<b>Total Bank and Cash Balances</b>	<b>94,315,125</b>	<b>84,253,706</b>

**Credit quality of Financial Assets:**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

**Long-term Receivables**

Group 3	19,000	67,751
<b>Total Long-term Receivables</b>	<b>19,000</b>	<b>67,751</b>

**Receivables from Exchange Transactions**

Counterparties without external credit rating:-		
Group 2	48,559,491	43,055,996
<b>Total Receivables from Exchange Transactions</b>	<b>48,559,491</b>	<b>43,055,996</b>

**Receivables from Non-exchange Transactions**

Group 1	10,573,780	16,555,986
<b>Total Receivables from Non-exchange Transactions</b>	<b>10,573,780</b>	<b>16,555,986</b>

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**2018**  
**R**                      **2017**  
**R**

**49 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION**

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes. All councillors belong to the Pension Fund for Municipal Councillors. Employees belong to a variety of approved Pension and Provident Funds as described below. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R8,635,000 (2017: R-2,312,000) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The total expense recognised in the Statement of Financial Performance of R8,635,000 (2017: R-2,312,000) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. As at 30 June 2018, contributions of R8 000 (30 June 2017: R8 000) due in respect of the 2017/18 (2016/17) reporting period had not been paid over to the plans. The amounts were paid over subsequent to the reporting date (see Note 45.5).

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

**DEFINED BENEFIT SCHEMES**

**Government Employees Pension Fund (GEPF):**

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The statutory valuation performed as at 30 June 2006 revealed that the fund had a surplus of R0,0 (30 June 2004: deficit of R12,8) million, with a funding level of 100,0% (30 June 2004: 96,5%). The contribution rate paid by the members (7,00%) and the municipalities (13,00%) is sufficient to fund the benefits accruing from the fund in the future.

**Municipal Employees Pension Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 28 February 2014.

The net assets available for benefits were R5 715 557 193.

The statutory valuation performed as at 28 February 2014 revealed that the net assets of the fund were R0,0 (28 February 2011: R552,8) million, with a funding level of 100,0% (28 February 2011: 107,9%). The contribution rate paid by the members (7,50%) and Council (15,00%, 18,00% and 22,00%) is not sufficient to fund the benefits accruing from the fund in the future and there is a shortfall in the future employer contribution rate of 12,80% (28 February 2011: 8,10%).

The fund is closed for membership and no new members are allowed to join the fund.

No further information could be obtained.

**National Fund for Municipal Workers - Pension Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The scheme's assets amounted to R6 981,5 (2012: R5 646,4) million at 30 June.

The fund does not have any reserves or surpluses which can be allocated to members' fund records.

The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006    14%
- From 1 July 2007    17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

The statutory valuation performed as at 30 June 2013 revealed that the fund had a deficit of 65,2 (30 June 2012: deficit R63,6) million, with a funding level of 99,07% (30 June 2012: 98,89%). The contribution rate paid by the members (minimum of 2,00% to 5,00%) and the municipalities (minimum of 2,00% to 5,00%) is sufficient to fund the benefits accruing from the fund in the future.

The monthly deductions for cost were sufficient to cover the expenses incurred over the valuation period. The Trustees, with the support of the Valuator, must continue to monitor the position on an annual basis.

No further information could be obtained.

**Joint Municipal Pension Fund (previously Transvaal Municipal Pension Fund):**

The scheme is subject to a bi-annual actuarial valuation. The last statutory valuation was performed as at 30 September 2007.

The statutory valuation performed as at 30 September 2007 revealed that the fund had a surplus of R82,1 (31 December 2005: shortfall of R44,2) million, with a funding level of 123,7% (31 December 2005: unknown). The contribution rate paid by the members (9,00%) and municipalities (22,00%) has a shortfall of 0,90%, but can be covered by the available margin in the fund.

The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006    14%
- From 1 July 2007    17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

**KOUGA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**2018**  
**R**

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**R**

The fund is closed for membership and no new members are allowed to join the fund.

No information could be obtained.

**DEFINED CONTRIBUTION SCHEMES**

**Cape Joint Pension Fund:**

The scheme is subject to an annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2012.

*Defined Benefit Scheme*

The contribution rate payable is under the defined benefit section is 27%, 9% by the members and 18% by their councils. The actuarial valuation report at 30 June 2012 disclosed an actuarial valuation amounting to R3 014 878 (2011: R2 971 150) million, with a net accumulated deficit of R18 287 (2011: R58 935) million, with a funding level of 99.4% (2011: 104.1%).

*Defined Contribution Scheme*

The actuarial valuation report at 30 June 2012 indicated that the defined contribution scheme of the fund is in a sound financial position, with assets amounting to R 421 900 (2011: R386 570) million, net investment reserve of R21 231 (2011: R15 285) million and a funding level of 105.3% (2011: 104.1%).

Council contribute to the Municipal Council Pension Fund, SALA Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

**Cape Joint Retirement Fund:**

The scheme is subject to an annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2012.

The statutory valuation performed as at 30 June 2012 revealed that the assets of the fund amounted to R10 775 599 and R546 059 (30 June 2011: R9 930,837 in total) million, with funding levels of 99.9% and 108% (2011: 100.3% and 116.9%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7.50%) and the municipalities (19.50%) is sufficient to fund the benefits accruing from the fund in the future.

**Municipal Councillors Pension Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2012.

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13.75%) and Council (15.00%) is sufficient to fund the benefits accruing from the fund in the future. The actuarial valuation of the fund was undertaken at 30 June 2005 and reported a funding ratio of 147.3%.

The statutory valuation performed as at 30 June 2012 revealed that the net assets of the fund were R1 183,5 (30 June 2009: R1 123,7) million, with a funding level of 99.5% (30 June 2009: 102.0%). The contribution rate paid by the members (13.75%) and Council (15.00%) is sufficient to fund the benefits accruing from the fund in the future.

The deficit of R6,4 (2009: surplus R22,5) million is regarded as relatively insignificant in the context of the fund. There is a strong possibility that SARS may reverse penalties and interest in the order of R10,3 million which will result in a fully funded position.

The next statutory valuation was due at 30 June 2009, but an extension has been granted until 31 December 2010.

As reported by the Actuaries, the Fund was following an appropriate investment strategy during the valuation period.

No further information could be obtained.

**National Fund for Municipal Workers - Provident Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 01 July 2010.

The net assets available for benefits were R4 191 (2008: R3 617) million.

The statutory valuation performed as at 1 July 2010 revealed that the fund had a deficit of R9,6 (1 July 2008: R6,3) million, with a funding level of 99,77% (1 July 2008: 99,83%). The contribution rate paid by the members (2,00% to 5,00%) and the municipalities (2,00% to 7,00%) is sufficient to fund the benefits accruing from the fund in the future.

None of the above mentioned plans are State Plans.

**50 RELATED PARTY TRANSACTIONS**

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

**50.1 Compensation of Related Parties**

Name of Related Person	Designation	Description of Related Party Relationship	2018	2017
S. Meleni	Official	Wife of councillor Meleni	266,195	233,358
M. Jenneker	Official	Daughter of the Manager Expenditure	262,380	226,519
N. Baartman	Official	Daughter of the Manager Asset & Fleet	-	250,847
B. Marais	Official	Son of the Manager Technical Services	361,707	300,039

**50.2 Purchases from Related Parties**

The municipality bought goods from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Municipal Capacity	Nature of relationship	Purchases for the Year	Purchases for the Year
Central Bridge Trading 436 CC	Z. Tshume	Official	Wife of the director	187,781	134,311
Faulkner Bouers	B. Faulkner	Official	Director is the uncle of this employees	82,250	-
Kwa Nandipha Catering	P. Dondashe	Official	Husband of director	41,632	140,339
Algoatime	J. Beda	Official	Husband of the director	125,458	65,970
Amahle Waste Recycling	NI Dela (Emp 1959)	Ward Committee Member	NI Dela is the director/owner of the company	30,700	-
Mesrazest	J Hammond	Official	Brother in Law of Director	277,230	-
Infraforce Africa (Pty) Ltd	E. Sekula	Official	Owner was employed at KLM	254,795	-
Mgqandu & Coco Trading	C. Mgqandu	Official	Husband of Director	75,480	-
21st Century Contractors & Transport	S. Prinsloo	Official	Wife of Director	39,174	-
Alvivect (Prt) Ltd	N Zode	Official	Wife of the Director	-	404,484
<b>Total Purchases</b>				<b>1,114,499</b>	<b>745,104</b>

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

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	2018 R	2017 R
<b>51 CONTINGENT LIABILITIES</b>		
<b>51.1 Court Proceedings and investigations</b>	<b>34,235,243</b>	<b>35,343,388</b>
1. Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	13,735,243	10,033,113
2. Various claims due to municipal administrative matters under dispute or investigation	20,500,000	22,874,000
3. Various claims by the current or terminated employees due to unfair labour practices	-	2,436,275
<b>52 CONTINGENT ASSETS</b>		
<b>52.1 Insurance Claims:</b>	<b>1,285,896</b>	<b>1,271,590</b>
(i) Lost / Damaged Assets:	1,285,896	1,271,590
The municipality has claims outstanding against its Insurers for lost and/or damaged assets. The management believe that it is probable that the claims will be successful and that compensation of R1,285,896 (2017: R1,271,590) will be recovered.		
<b>53 IN-KIND DONATIONS AND ASSISTANCE</b>		
The municipality did not receive any In-kind Donations and Assistance during the year under review.		
<b>54 PRIVATE PUBLIC PARTNERSHIPS</b>		
The municipality was not a party to any Private Public Partnerships during the year under review.		
<b>55 EVENTS AFTER THE REPORTING DATE</b>		
On 30 August 2018, Council approved a write-off of irregular expenditure amounting to R34,212,314, incurred for the period 1 July 2010 to 30 June 2016, in accordance with section 32 (2)(b) of the MFMA.		
<b>56 COMPARATIVE FIGURES</b>		
The comparative figures were restated as a result of the effect of the implementation of MSCOA, and Prior Period Errors (Note 42).		
<b>57 GOING CONCERN ASSESSMENT</b>		
Management considered the following matters relating to the Going Concern:		
(i) On 31 May 2018 the Council adopted the 2018/19 to 2020/21 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.		
(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.		
(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.		
(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an on-going inflow of revenue to support the on-going delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.		
Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.		